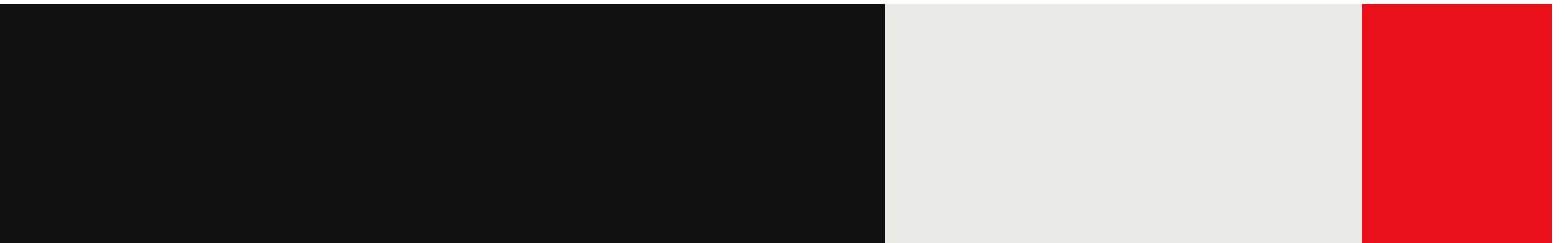


Behind the Numbers: How Amazon Has Made Itself Even More Essential ... And How It Hasn't

Audio



On today's podcast episode, we discuss how Amazon has made themselves even more essential to customers, why "they can't make physical stores work", and how its advertising

business is getting on. Tune in to the episode with Senior Director of Podcasts and host Marcus Johnson, Analyst Rachel Wolff, and Senior Director of Briefings Jeremy Goldman. Listen everywhere and watch on YouTube and Spotify.

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Episode Transcript:

Marcus Johnson (00:00):

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(00:29):

Hey gang. It's Monday, March 3rd. Rachel, Jeremy, and listeners, welcome to Behind the Numbers, an EMarketer video podcast. I'm Marcus, and today we'll be discussing Amazon for that conversation. We're joined by two people. Let's meet them. We start with our analyst who covers retail for us based in New York. It's Rachel Wolff.

Rachel Wolff (00:46):

Hey, thanks for having me.

Marcus Johnson (00:47):

Of course. Of course. Said that really fast. And also we're joined by senior director of briefings living in New York as well, it's Jeremy Goldman.

Jeremy Goldman (00:55):

Great to be with you. I cannot believe it's March.

Marcus Johnson (00:57):

I know. Shocking. I said March 3rd. I don't really know what the date is. That might be right. Anyway, today's fact. Cows have done a lot of these recently, but they're fascinating

creatures, can suffer from depression and display signs of mood disorders when isolated from their herd. According, again, to my hometown college, the University of Northampton. So cattle, you're asking what the hell happened with this experiment? Don't worry, I've got it here. The cattle were held in an isolation arena for 30 minutes and their heart rates were measured at 15 second intervals according to a BBC article. So a bunch of really smart researchers were putting these poor animals in cow time out to study them. This university is out of control. Do some actual research.

Jeremy Goldman (01:59):

But why are they so depressed? Is it because they have a lot of beefs?

Marcus Johnson (02:06):

Oh, yes.

Jeremy Goldman (02:06):

Sorry. Sorry. Or is this just an excuse? It's better to eat them, to put them out of their misery.

Marcus Johnson (02:12):

Oh no, that's not the message.

Jeremy Goldman (02:14):

Okay, sorry.

Rachel Wolff (02:15):

That's part two of the experiment.

Jeremy Goldman (02:18):

Okay.

Marcus Johnson (02:19):

How would you know though that they're depressed? They always look a little down, don't they? I've never seen a cow and thought they appear to be having a great day.

Jeremy Goldman (02:27):

I would not be psyched if I was a cow.

Rachel Wolff (02:29):

Yeah, and how do you know they get on with all the other cows? It could be a great respite for them. Who knows?

Marcus Johnson (02:35):

Well, so apparently they do have best friends. That was also research done by this shockingly un-prestigious university that I grew up near. What are they doing? Anyway, today's real topic, the pieces of Amazon that are working and the ones that aren't. So in today's episode, we're talking Amazon. Let's start with their performance top line, how are they doing? Amazon grew total net sales, nearly 11% in Q4. That's down a few ticks from the previous Q4 as growth tends to do. Slice of pie is what we're playing for this first question. Rachel's going to create a pie chart for us as to the reasons three max, why Amazon grew total revenue 11% year over year in Q4.

Rachel Wolff (03:27):

First piece of the pie, going with 40% here. So pretty sizable chunk.

Marcus Johnson (03:32):

Decent.

Rachel Wolff (03:33):

I would say just down to a strong holiday season overall. I mean, we saw this across the board with plenty of retailers. I mean, even struggling retailers like Target had a good quarter, and overall people were just really enthusiastic about spending this year either because there was just a whole lot of deals out there for them to take advantage of, and it was a shorter holiday season. So there's also that sense of urgency, but Amazon called this out themselves. They said they had a record breaking Black Friday in Cyber Five, which you kind of have to take with a grain of salt, given that they had a much longer sales period this year than they have had in the past. But even taking that into account, it was a good quarter for them.

Marcus Johnson (04:14):

40% just overall market, doing good things. Okay, what else do we have?

Rachel Wolff (04:20):

So the other big chunk, another 40% I'm giving to convenience, and I've said this in the past, I think for the past three or four quarters, but it's still true. People want things fast and Amazon is better equipped than pretty much any other retailer to make that happen.

Marcus Johnson (04:36):

Yeah. I mean, they want things fast, but Amazon is making themselves very essential. The everyday essentials category has been growing and growing. And so folks who need those essentials today, or at the very least tomorrow, that's the person that they're turning to. Amazon was saying in 2024, they delivered 50%, 50% more essential items than the year before. And Rachel, this isn't by accident, right? Karen Weiss of the New York Times is reminding us that Amazon's been working on its operations to put items close to customers so they're quicker and less expensive to deliver.

Rachel Wolff (05:11):

Right. I mean, this has been a huge push for them. It's going to keep being a huge push. I mean, I think they said there's no downside for them to keep investing in faster and faster delivery.

Marcus Johnson (05:21):

And no more-

Jeremy Goldman (05:22):

Also, by the way... Oh, sorry. Just going to say that I think that the interesting thing about that is it's making Amazon just more key and crucial to people's lives, which then these things that Rachel, I think you're talking about, they're not such high margin, but they are really habit forming and I think that that's really important to them.

Rachel Wolff (05:39):

Yeah, exactly. If you run out of toothpaste instead of running to the nearest Walgreens, people are just ordering on Amazon instead.

Marcus Johnson (05:45):

Yeah, I mean the essential part's really interesting because you think about going to Amazon for all sorts, but if they can capture that piece of the market, especially Zak Stambor, our

colleague was writing one in three consumers would prioritize spending on essential items if tariffs or a trade war drove up prices on their regular purchases. It was January survey from First Insight, he says Amazon is positioning itself as the go-to retailer, no matter the economic climate, which I thought was interesting.

Rachel Wolff (06:12):

For sure. And it also comes down to the fact that a lot of these pharmacy chains, I mentioned, Walgreens, are really struggling and the in-store experience has suffered.

Marcus Johnson (06:22):

Yeah.

Rachel Wolff (06:22):

Amazon is gaining there too because-

Marcus Johnson (06:23):

Great point.

Rachel Wolff (06:24):

Then there is an actual advantage to buying on Amazon as opposed to having to wait online and press the button and wait for an hour for somebody to come give you your toothpaste.

Marcus Johnson (06:33):

Chase them through the store. I turn it into an adventure. Rachel, 20% left.

Rachel Wolff (06:39):

Yes.

Marcus Johnson (06:39):

What are we giving it to?

Rachel Wolff (06:40):

So my last 20% is ruthless efficiency. So Amazon has done a really good job, I think, of just cutting anything that's underperforming in the least, whether that's shutting down Amazon Go

stores, and I guess we'll talk about this more with the physical retail piece, but even recently they shut down their TikTok-like content feed because it wasn't giving them the results that they wanted, and that's freed up resources that they can funnel back into their fulfillment, for example, or AI where they're investing a lot more.

Marcus Johnson (07:15):

Jeremy, how's this pie chart sound to you? Would you change anything?

Jeremy Goldman (07:18):

No, I think it's pretty accurate. I mean, I think that there's argument to be made about some of the projects like Inspire. Rachel and I have talked about this offline about how inspired of a feature and launch was it really to begin with. But the fact remains, you've got to give a company a lot of credit for that whole sum cost fallacy in saying, "Okay, this isn't working. We're going to pull and we're going to reallocate towards something that is more core to our business." So, yeah.

Marcus Johnson (07:48):

Okay. So Amazon, they had a good Q4 as I mentioned, and they had a good 2024 as a whole. So their 2024 overall growth for total net sales was 11% online stores. Net sales was up 7%. That was for 2024, and those numbers were almost identical for Q4 as well. So it had a good end of the year and full year, but they said they anticipate Q1 sales to fall short of analyst expectations by about three to 5%. So for January, February, and March. If it's 5%, if it's falling short of those expectations by 5%, that would be Amazon's slowest growth since it went public in 1997. So it's a big deal. The retail giant said that foreign exchange rates will be responsible in large part, however, our Zak Stambor mentioned earlier, noting that, "Excluding currency effects the company would still fall short of expectations signaling broader challenges ahead." What challenges are we talking about here, gang? Any thoughts?

Rachel Wolff (08:48):

Well, I think the big word is tariffs and in particular their potential to raise prices for a lot of the goods that people are buying and reignite inflation. And once that happens, it's just going to be a continuation of what we saw over the past few years where people just either buy less or people buy less to account for those price increases. And Amazon might be a little more

insulated because it does sell more of those essential goods. But overall, like electronic spending, beauty spending, all of these things are likely to be affected pretty heavily by tariffs.

Jeremy Goldman (09:24):

And Marcus, by the way, for any clients who have read what Rachel and Zak have been writing for our retail and e-commerce briefing, they would see there's some interesting thing on a lot of different earnings calls where people are calling out the uncertainty given potential trade wars and tariffs and whatnot. So I think in some ways, I mean, do I think that Amazon believes in what they're saying? Sure. But I also think in some ways there's going to be a bit of a testing of a, "Can you call this out and not get dinged that much from a stock perspective," because it's like a known quantity. They know that they don't know basically what's going to happen, and as a result, they're hedging a little bit. And I think a lot of players are within the retail space.

Rachel Wolff (10:10):

Yeah, I mean Walmart, which is the closest analog to Amazon, has also been very conservative about their expectations for the coming year, even though Walmart is technically less exposed to tariffs. So I think a lot of retailers, as Jeremy said, are really just hedging their bets and trying to come to grips with a very, very uncertain economy where it's difficult to know what's going to happen day to day.

Marcus Johnson (10:35):

Yeah. Well, so you mentioned Walmart and yeah, obviously a big competitor of Amazon's in the online space, because I think they're about 9% of all online sales in the US now is Walmart compared to Amazon's over 40%, but I mean, not the closest competitors there, but still rivals. And then in the in-store space, you have Amazon trying to even get a slice of the pie that Walmart has managed to amass since its inception. And Amazon Go stores, part of that story, part of that physical retail strategy, if you will. As of last year though, Amazon made just 3% of its revenue from physical store sales. That's the smallest slice to date. So it is getting smaller and smaller. The revenue is creeping up a little bit. A big part of that is because AWS is doing so well, advertising is doing so well. Some of those other slices are growing, but it's not a great sign.

(11:36):

A recent Wall Street Journal piece from Kate King reading, "Amazon, King of online retail can't seem to make its physical stores work." The article pointing out that Amazon has long struggled with its brick and mortar ambitions closing its bookstores, fashion outlets, four-star locations. Most recently it closed its Amazon Go store in Woodland Hills in California. Amazon's cut its Go portfolio in half since 2023, to 16 stores in four states. Ms. King writing, "That instead, Amazon is focusing on licensing its just walkout technology to other retailers. While it focuses its brick and mortar ambitions on grocery stores." However, Rachel, Jeff Edison, chief Executive of Real Estate investor, Phillips Edison, that owns Grocery anchored shopping centers says, "Can you think of any examples where Amazon have done bricks and mortar retail well?" So what do you think fair or unfair comment?

Rachel Wolff (11:36):

That's an odd question.

Marcus Johnson (12:23):

Yeah. What do you think?

Rachel Wolff (12:25):

I think it's fair to a certain extent. I think that Amazon has thrown a lot of stuff at the wall in an attempt to reinvent the retail experience, whether it's just walk out or their Amazon one palm payment system. But, none of these things have really become mainstream in the retail landscape. And part of that is because they're very expensive. They don't work in a lot of different contexts. At the same time, Amazon is kind of making money off of them. As you mentioned, they are licensing this out, the just walk out to hospitals, to arenas in places where the format actually works. So that's-

Marcus Johnson (13:04):

More than 200 retailers, so a lot of folks.

Rachel Wolff (13:06):

Yeah, so that could be the model for them, instead of focusing on creating actual retail formats, you focus on retail tech that could power other retailer's operations.

Jeremy Goldman (13:17):

By the way, which makes a lot of sense because that is a little bit kind of, that's more core to their DNA. I also think it's worthwhile, we actually talked about Amazon and retail without saying the words Whole Foods, which is interesting. I mean, can they get a little bit of credit for not breaking Whole Foods? I mean, I think that there's something to be said there. There's also something to be said for leveraging them in some way for Amazon returns, which is a little bit synergistic and makes sense. But yeah, I mean, ultimately the bottom line is if a company's core DNA is tied to doing one thing really, really well, then chances are they're not going to do another thing as well. And that's really what you've seen with Amazon is at their core, they know a few things, and that's where the talent of the company grows, and that's where a lot of the attention goes. And that's part of why they haven't been able to make retail totally work.

Rachel Wolff (14:07):

And you brought up Whole Foods, and they are actually experimenting quite a bit within Whole Foods. They have these new, smaller stores now, including one that just opened up in my neighborhood on the Upper East Side and Jeremy's neighborhood. They're also experimenting with ways to kind of mesh the Whole Foods in the Amazon experience so that you can get your Coke or whatever it is that you can't buy in Whole Foods during the same shopping trip. So I think they are kind of starting to use Whole Foods as a jumping off point for experimentation, but again, they are still figuring it out.

Marcus Johnson (14:40):

Yeah. Yeah. I mean, Jeremy, it kind of touches on what you were saying, but they're almost a victim of their own dominant online shopping success because most other companies making \$20 billion a year from physical store sales would be doing pretty well for themselves. But because Amazon has, as I mentioned, over 40% of online shopping in America and it's close 500-

Rachel Wolff (15:01):

Right. The standard times higher.

Marcus Johnson (15:03):

Yeah, close to \$500 billion there is exactly right, Rachel. The standards just is way higher. But plans to open more locations for Amazon Fresh. This is mass market grocery concept betting on dash carts as well. So we'll see. That's one very small and seemingly shrinking contest. Their

numbers part of Amazon's business, at least in terms of share. But another part that is growing in share and revenue is the advertising portion. Amazon's advertising business grew 20% in Q4, nearly 20% for the full year as well. Now accounting for a 9% slice of Amazon's total revenue. Jeremy's going to create a pie chart for us, three reasons why Amazon grew ad revenue 20% in Q4 and full year.

Jeremy Goldman (15:54):

Sure. First, I'm going to say it's very difficult to record something like this and say pie and whole foods and not get hungry. So-

Marcus Johnson (16:02):

What's your favorite pie? It's probably-

Rachel Wolff (16:03):

Maybe they should go out on Pie Day.

Jeremy Goldman (16:06):

Yeah, let's push it back. Why not?

Marcus Johnson (16:09):

Unless there's meat in the pie, I don't want to hear about it America.

Jeremy Goldman (16:12):

Oh God, no, no, no.

Marcus Johnson (16:14):

Enough with apple pie.

Jeremy Goldman (16:15):

Cherry all the way cherry and then apple.

Marcus Johnson (16:18):

Rachel, help me out?

Rachel Wolff (16:19):

I think banana cream pie has to be-

Marcus Johnson (16:21):

Cut that Lance, we can't have this here.

Jeremy Goldman (16:24):

Pecan also. Okay, fine. Anyway, okay. So pie wise, listen. So focus.

Marcus Johnson (16:33):

Sorry.

Jeremy Goldman (16:34):

No, no worries. So here's a little bit of context and then I'll tell you my number. Okay. Amazon's ad revenue was 37.74 billion for the year in 2022. Then it went up to about 46.9 billion, and then it went to 56.2 billion. And the reason why I'm saying that is because a lot of people talked about streaming ads on Prime Video and how that's a big portion of their success, but I think really at this point, you kind of have to give 70% of the pie towards their retail media flywheel, which is really impactful. You've been able to convince a lot of different third party sellers to get involved in their advertising ecosystem.

(17:18):

They've had more major sale days that have encouraged people to push their goods using retail media advertising. The consumer is getting more and more used to it. Whether or not it diminishes the overall quality of experience on Amazon is another question entirely. But I think that if you look at it, you really have to give most of that credit towards that retail media flywheel that is encouraging sellers to promote their products. And obviously they're selling a lot on Amazon, but at a lower margin, and this eats into their margin a little bit more, and they're still willing to do it.

Marcus Johnson (17:55):

Yeah. Yeah. Retail media ad revenue is expected to reach \$70 billion this year. So showing no signs of slowing down whatsoever. That's the biggest slice. What about the rest of the pie? The chicken pot pie?

Jeremy Goldman (18:09):

Yes, exactly. Well, okay, fine. That's a good one. But just to take the cherries out of it, I would say that probably 20% has to go to streaming. They just completed their first full year of streaming in Prime video with ads obviously by default, if people don't know by default you're getting ads, you have to pay the, it's not quite protection racket, but you do have to pay in order to opt out of the advertising, which was a different model that they tried, which was really smart.

Marcus Johnson (18:41):

Shocking to think that that was early last year that they turned those taps on. And apparently Daniel Konstantinovic, who's one of our colleagues saying they're planning to increase those ad loads this year as well.

Jeremy Goldman (18:50):

Exactly. So that's why we say going forward, I think that that can be a bigger reason for it. I think that you really can't under count the fact that you can now reach people at different parts of the funnel. You can do brand awareness, you can also do performance marketing through retail media. So the fact that they can reach people at different parts of the funnel through the same player makes them a very compelling place to park your advertising budget going forward.

Marcus Johnson (19:19):

Yeah. 10% left.

Jeremy Goldman (19:22):

The 10% left, and I know Rachel's also covered a bunch on this, is that they've made a number of different strategic AI investments. Who hasn't? But when you think about the way that they've invested in AI powered tools that will help you get new creative up faster. I mean, ultimately, again, everybody's doing this, all the major players, but they're trying to make it more turnkey for you to put creative up and then to personalize your ads to measure them on the back end. And the investments that they're putting on that front again, they paid dividends in Q4, but I think going forward, that's going to be a really major thing to watch who can make it more frictionless for the average advertiser to throw more dollars at key platforms? That's really a major thing that we're going to be following throughout the course of the year.

Rachel Wolff (20:13):

And I think it's really crucial for Amazon in particular, because most of their advertisers are these small sellers. So the easier that you make it for them to just launch a campaign, the more revenue gets into Amazon's pocket.

Marcus Johnson (20:24):

Yeah. Yeah. Great point. So growing slice the ads portion over the last three years, Amazon's ad business has grown, sorry, gone from accounting for 6% to 9% of total revenue as they become less and less reliant on online net store sales, even though that number is also going up in dollars, that share is going down. AWS, another significant portion, Jeremy mentioned AI. AWS has gone from 13% of its business to 17% over that same.

Jeremy Goldman (20:54):

And by the way, the AWS portion, it's important to note, expecting slower growth there, which is then just going to help advertising become an even bigger portion of the overall pie.

Marcus Johnson (21:06):

Yeah, good point. That's all we've got time for today's episode gang. Thank you so much for hanging out with me today. Thank you first to Rachel.

Rachel Wolff (21:13):

Thank you. And thank you for your cow facts.

Marcus Johnson (21:15):

You're welcome. I know you're lying. It pains me. Jeremy, thank you.

Jeremy Goldman (21:20):

Thank you for depressing me about the cow facts. This was great though.

Marcus Johnson (21:24):

Always welcome. Thanks to the whole editing crew, Victoria, John, Lance and Danny Stewart who runs the team and Sophie who does our social media. Thanks to everyone for listening in. If you have a second to write us a review, it would really mean the world to us. We really, really

appreciate those. We hope to see you on Wednesday for our Reimagining Retail show an EMarketer podcast.