

Despite Amazon's cost cutting, Jassy maintains commitment to innovation

Article

The news: “Change is always around the corner,” writes Amazon CEO Andy Jassy, noting that companies that respond to challenges, such as the current macroeconomic environment,

position themselves well for long-term growth.

- That mentality drove Amazon to embark on an array of cost-cutting measures, including shuttering several physical store concepts, and **laying off** roughly 27,000 roles.
- But those steps should help it pursue key growth areas such as advertising, retail, and grocery.

Growing its advertising business: While large advertising-focused businesses (such as **Meta**) have seen growth slow over the last few quarters, Amazon's business continues to thrive (it was up 25% year-over-year in 2022), Jassy noted.

- **The business benefits from Amazon's massive scale.** Given Amazon's significant ad load, many brands feel pressured to pay for ads to ensure shoppers can find their products.

Improving fulfillment: The pandemic drove Amazon to double the size of its fulfillment center footprint and accelerate its building of a last-mile transportation network.

- But that rapid expansion required optimization, which it has since embarked on by pivoting it away from a national network to a regional model to cut down costs and delivery times, Jassy wrote.

Meeting customers' grocery needs: While Amazon has a significant grocery business, Jassy acknowledged the company has yet to find the right scalable model.

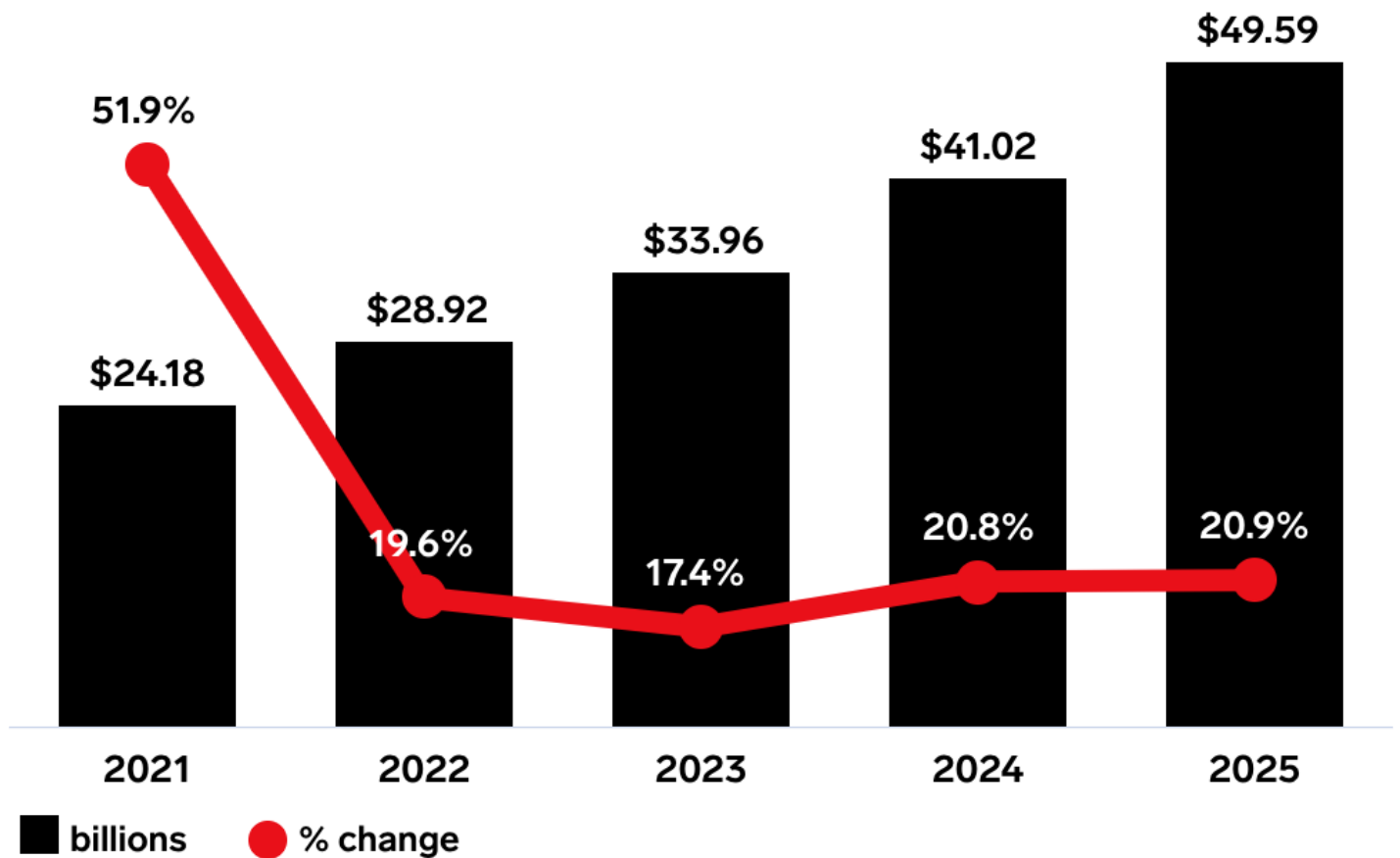
- It recognizes the need to expand its physical footprint, given that the vast majority of grocery sales occur offline. (Our **US Grocery Retail Ecommerce Sales forecast** suggests 88% of sales will be offline this year.)
- **Whole Foods Market** is on an "encouraging path" but Amazon needs to "find a mass grocery format that we believe is worth expanding broadly," Jassy wrote, suggesting that its **Amazon Fresh expansion pause** may be permanent.

The big takeaway: Like many large companies, the current economic environment is forcing Amazon to make tough choices.

- Jassy aims to reassure investors that Amazon is making the necessary adjustments to position it for strong growth ahead.

Amazon Ad Revenues

US, 2021-2025



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites

Source: eMarketer, March 2023

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