

Amazon's growing reliance on ad revenues could come at the expense of the customer experience

Article

The news: Amazon reported Q1 earnings above expectations as CEO **Andy Jassy** continues his efforts to slash expenses amid slowing growth.

- **Revenues grew by 9% year-over-year (YoY) to \$127.4 billion**, surpassing analysts' expectations of \$124.5 billion, per Refinitiv.
- **Advertising revenues increased by 21% to \$9.51 billion**, smashing past StreetAccount's estimate of \$9.08 billion.
- Sales from online stores were roughly flat YoY, while revenues from physical stores rose 7%.

Amazon's ad business is booming: Advertising has been a consistent bright spot for Amazon, as merchants and brands pony up to make their products more visible to shoppers.

- Amazon's ad business significantly outperformed those of **Meta, Alphabet, and Snap** in Q1, showing that the retailer's strategy of essentially making advertising a cost of doing business for merchants has paid off handsomely.
- Amazon recently replaced editorial recommendations, which allowed brands to feature third-party product reviews, with more ad units, per Modern Retail, increasing the amount of premium ad inventory available on the search page.
- The company also recently began **testing ads in Audible** audiobooks, podcasts, and original content.
- But the company has to be careful to balance its desire for ad revenues with the customer experience. While increasing the ad load benefits Amazon's bottom line, it adds clutter to an already clunky user interface, making it even harder for customers to surface the products they're looking for.

Focusing on the customer: As sales growth decelerates, improving the customer experience is key for Amazon as it looks to keep shoppers spending.

- **Customer satisfaction with Amazon** fell to an all-time low last year, per the American Customer Satisfaction Index, with shoppers complaining of delivery delays, poor quality items, and subpar customer service.
- Since then, the company expanded its **ultrafast delivery capabilities**, ramped up efforts to police fake reviews and counterfeiting, and overhauled its fulfillment model to reduce delivery times.

- Those efforts appear to be paying off; the ecommerce giant received the second highest customer satisfaction score among online retailers, [per](#) the latest American Customer Satisfaction Index. And the company expects to have its “fastest Prime delivery speeds ever in 2023,” Jassy wrote in Amazon’s Q1 earnings release.
- But challenges remain. For example, product reviews written by ChatGPT or other generative AI tools are popping up across the platform, per CNBC, which could erode trust further.

Amazon’s grocery struggles: While physical store sales rose in the quarter, Amazon has yet to determine the best course of action for its brick-and-mortar presence. While Jassy pointed to grocery as a huge growth opportunity in his [recent letter to shareholders](#), he also acknowledged the company is yet to find a mass grocery format worth expanding, despite significant investments in its Amazon Fresh banner.

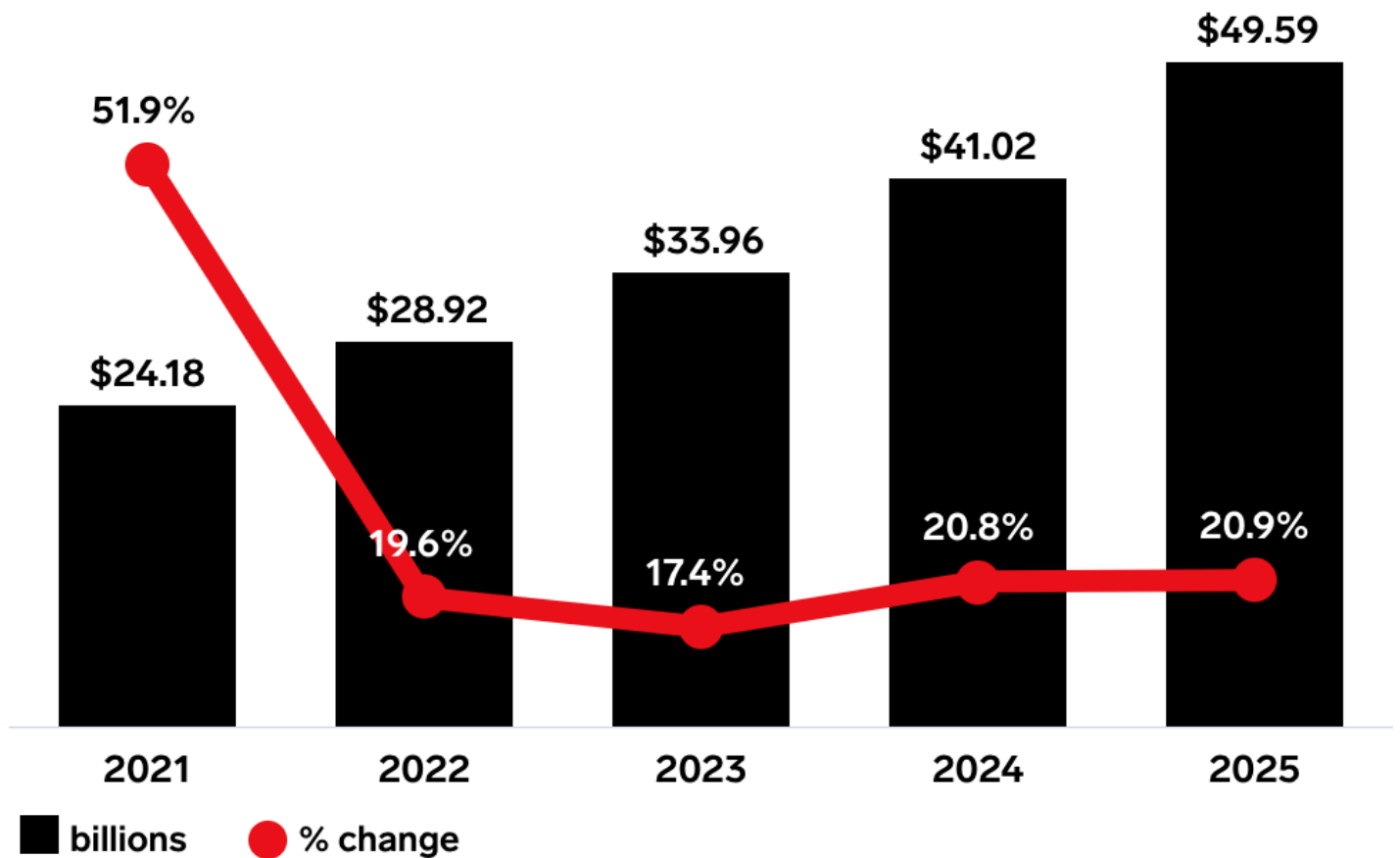
- The company removed signage from at least six fully built, but yet-to-open, Amazon Fresh stores across the US, per Winsight Grocery Business, raising questions about the future of [Amazon Fresh](#) as well as the company’s broader brick-and-mortar strategy.
- Amazon will continue to “go big” on grocery, Jassy told the Financial Times in February, and is “experimenting with selection, checkout formats, assortment, [and] price points” to find a model both scalable and differentiated from competitors.
- Capturing a larger share of the grocery market will be key for Amazon to drive growth in its retail business and grow its share of wallet.

The big takeaway: Amazon’s cost-cutting and optimization efforts are beginning to pay off.

- The company expects Q2 sales to grow between 5% and 10%, helped considerably by its ad business.
- But investing in the customer experience will be just as important to keep Amazon in the green.

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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