Jeremy Goldman, and Zak Stambor

The Daily: Amazon's advertising accelerates, Bed Bath & Beyond's comeback, and how Pinterest surpassed expectations

Audio

On today's podcast episode, we discuss whether Amazon's online sales business glass is half full (or half empty), if you should advertise on Amazon without selling there, and how much offering primary care to Prime members can move the needle. "In Other News," we talk about Bed Bath & Beyond's marketing, its comeback, and why Pinterest beat everyone's expectations. Tune in to the discussion with our director of Briefings Jeremy Goldman and analyst Zak Stambor.

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Episode Transcript:

Marcus Johnson:

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Jeremy Goldman:

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Marcus Johnson:

Hey, gang, it's Tuesday, November 14th. Jeremy, Zak, and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast. I'm Marcus. Today, I'm joined by two people. Let's meet them. We start with our senior director of briefings based in New York. It's Jeremy Goldman.

Jeremy Goldman:

Hey, great to be with you.

Marcus Johnson:

Hey, chap, thank you for being around. We're also joined by one of our senior analysts who writes for our retail briefing based just above Chicago. It's Zak Stambor.

Zak Stambor:

Hey, Marcus. Hey, Jeremy.

Marcus Johnson:

Hey, fella. So today's fact, this one at first seemed pretty terrible, but then when you really think about it, it's pretty cool. I'm probably the only person who thinks that, but here it is. If you're in Stanford, Connecticut, so that's the bottom left corner of the state, if you go north, you hit New York, east, you hit New York, south, you hit New York, and west, you hit New York. Whichever direction you go in Stanford, Connecticut, east, north, south, east, or west, you hit New York.

Jeremy Goldman:

Is that right? I need to look this up.

Marcus Johnson:

Check it. Pull up a map. Pull it up right now, Google Maps, Stanford, Connecticut. If you go north, you nearly hit Albany. If you go east, Montauk. If you go south, it's the middle of Long Island. And if you go west, you nearly hit White Plains.

Jeremy Goldman:

Is this the only place though that's like that or are there a lot of places like it?

Marcus Johnson:

Maybe. It's kind of like Detroit. If you go south from Detroit, you hit Canada. Is that right? Might've made that up.

Jeremy Goldman:

I think that sounds right, yeah.

Marcus Johnson:

Or the fact that Reno, is it Reno, is further west than Los Angeles. That one also is shocking. You have to pull up a map to be able to convince yourself that that's true.

Jeremy Goldman:

Yeah, that is a weird lot.

Marcus Johnson:

Yeah. Have you pulled up a map of Stanford?

Jeremy Goldman:

I did.

Marcus Johnson:

You've got to see it to believe it. I told you, it sounds rubbish and then you're like, yeah, it's pretty good. All right, let's move on. Today's real topic, Amazon's online sales improve, but not quite like its ad business. In today's episode, first in the lead, we'll cover Amazon. Then for another news, we'll discuss Bed Bath & Beyond's comeback back and how Pinterest is getting on.

We start with the lead. We're talking Amazon. We'll start with the biggest portion of their business, which is selling things online. Zak, I'll start with you because you cover retail for us. Amazon's online store sales growth was exactly the same as last Q3's, 7%. So 7% in Q3 last year. 7% growth in Q3 this year for online stores net sales. Is that a good or a bad thing?

Zak Stambor:

It's a good-ish sort of thing. It's the fastest growth since Q3 of last year.

Marcus Johnson:

True.

Zak Stambor:

And it's off a big base. I say this all the time, but if you go back to 2019, it's up 63% from that. If you go up from 2020 when you basically had to buy things online because you didn't want to venture into a store, it's up 18%. They're selling a lot of stuff. And beyond that, the other key metric that I look at is third party seller services, which is a huge chunk of money.

Also, the reason that they're facing antitrust issues, but that area is up 20% year over year as the marketplace accounts for a growing share of sales on its platform. And so they're doing just fine. They're doing good-ish, like I said.

Marcus Johnson:

So yes, accounting for a growing share, third party seller services, about 24% of its business. Interesting to see that Amazon's share of online store sales, that continues to shrink. So online store sales used to account for about 50% of Amazon's business in 2020. Today, it's 40% and you see some other things, ad sales, which we'll talk about, AWS, third party seller services starting to become more and more significant to Amazon.

As you mentioned, it's continued to accelerate each of the last four quarters. Going back to Q4, it's gone from negative two to zero to plus four, and then now in Q3 it's gone to plus seven. So that's positive.

Jeremy Goldman:

By the way, and I know that you're going to mention advertising a little bit because I'd be shocked knowing you.

Marcus Johnson:

No, I didn't.

Jeremy Goldman:

Darn it. All right, I'm leaving now. But I think you can't really discount the fact that that growth represents something bigger when you think about the fact that retail media is such an important part of their business and it's essentially like not quite a tax, but all of that 7% growth means that then you get to pull the retail media lever, which is a higher margin. So you can't really look at one without looking at the other.

Marcus Johnson:

Quick point from Rachel Wolff who writes for our briefing as well. She was saying Amazon has seen an increasing engagement demand and conversion rates in areas where offers faster delivery options. Pointing out that they recently launched robotic systems Sequoia that cut the amount of time spent identifying and storing inventory received at fulfillment centers by 75% and reduces order processing time by up to 25%.

So that's helping with some of these numbers. Jeremy, you mentioned advertising, which I guess we should talk about. What's impressed you the most about Amazon's ability to grow ad revenue 26% in Q3? It's the fastest costly growth in nearly two years and double Amazon's top line 13% for some context.

Jeremy Goldman:

Yeah. I mean, I think one of the key things is just education around retail media as an opportunity for brands and for sellers. That's something that is really noteworthy. And again, that 26%, just to take the inverse of what Zak said before, we have to acknowledge that this is off of a much smaller base and it's double Amazon's 13% overall revenue growth. So when you look at it that way, you say this is something that can be certainly like a bit of a power for their flywheel over the next few quarters before it starts to slow down and maybe become something that people expect.

But going back to the idea of retail media and why it's so impactful, sellers just essentially acknowledge that this is a cost of doing business on a marketplace. They will have lower margins, but they will be able to sell more and do they want to live with that. And the answer right now looks like yes, they definitely do.

Marcus Johnson:

So Amazon, they now get 8% of their revenue from their advertising services. So 8%, that's up from seven and a half the year before, seven the year before that, six the year before that. So each year they're adding about 1% share to that line item. That's ad revenue. You zoom out, we expect a 17% increase in Amazon's ad business in 2023, and then for it to accelerate to 21% next year. So that's looking really good. Jeremy, you mentioned the cost of doing business and there was an article I wanted to bring up talking about Amazon and advertising or advertising on Amazon.

The article titled Not Selling on Amazon? That Doesn't Mean You Shouldn't Advertise There. The suggestion from Elizabeth Marsten, VP of Commerce Strategic Services, a performance marketing company Tinuiti in a recent Adweek article. She was arguing that just because your product can't be boxed up and shipped out doesn't mean you shouldn't advertise on a retail media network.

Ms. Marsten says the company is selling services like insurance, financial planning, real estate tutoring, lawn care, all kinds of things can consider non-endemic advertising. While no one is coming to Amazon or Walmart to search for those services, she says people who buy those services are most certainly shopping on retailers sites. Zak, should folks be considering advertising on Amazon if their products aren't even there?

Zak Stambor:

I think so because you go where the eyeballs are, and there's just a lot of people on Amazon all the time. Now, the one thing I would say is that you go in and you go out of Amazon relatively quickly for the most part. And so you do have to think about how lucrative and what those customers are or those prospective customers are and whether you have a message that can hook them quickly.

There's a lot of opportunities to advertise beyond just on the website. Amazon's opening a lot of opportunities with video and that's a huge opportunity to grab attention or capture attention.

Marcus Johnson:

Jeremy, what'd you think?

Jeremy Goldman:

Yeah, I would just add that there's certainly a lot more inventory in terms of places where you're going to be able to advertise within, not necessarily on Amazon, but within the Amazon ecosystem in general. And I think that that's going to be really interesting, especially as they try to open up the impressions that they can sell. I would expect that for certain types of placements that are further away from point to purchase, if you will, that you will be able to buy a little bit more cost effectively on Amazon than it's gotten the reputation for.

Like let's not forget, for instance, there are going to be ads on Prime Video pretty soon and in a lot of different markets. So there are changes coming and there are going to be a lot more surfaces where you can consider an Amazon advertising buy in that stands to benefit their bottom line.

Marcus Johnson:

Let's close the lead by talking about their Prime membership program. Amazon to offer lower cost primary care, healthcare that is, to Prime members in its latest healthcare push, right? Sebastian Herrera of The Wall Street Journal, he explains that Amazon will charge Prime customers $100 a year for annual access to One Medical, just for One Medical.

You have to pay the $140 for Prime, then it'll be $100 on top of that for One Medical, which is its newly acquired primary care service. Access to One Medical offers virtual and in-person visits and testing that require additional payments either through insurance plans or out of pocket. Jeremy, how much can Amazon offering primary care to Prime members move its Prime membership needle out of 10?

Jeremy Goldman:

I would say it's actually a seven in the sense that... Which is not bad. Do you think that's bad? I think that's great.

Marcus Johnson:

No, I think that's higher than I was expecting you both to say.

Jeremy Goldman:

Yeah. I mean, I think that the simple reason that you've essentially done everything that you can to get a certain subset of users to be aware of Prime in general, so to offer something that people didn't previously get. I mean, you see the same thing with Spotify with audiobooks, making inroads into somebody else's territory. And this type of convergence makes a lot of sense when you accept the fact that everybody who knows about Prime already has had the option to sign up for a while.

So by offering something else that's novel and that a lot of people need and put a certain price point on, they might say that the $99 for a whole year is a decent value.

Marcus Johnson:

I mean, if you're a One Medical person already, you might as well get Prime, because $100 a year for access to One Medical if you're a Prime person is half what it typically costs to join if you're not a Prime member. Put another way, you are spending $200 on just One Medical if you don't have Prime, so you might as well spend $240 and get Prime plus One Medical. Zak, for you, how much does primary care move the Prime membership need out of 10?

Zak Stambor:

One. I don't think it did. Time is incredibly sticky, right? So just thinking of how I use my Prime membership, I'm accustomed to getting superfast free shipping. I store my photos and Amazon photos. I don't watch football. But if I did, I would watch Thursday Night Football and Catastrophe on Prime. And the number of people who are going to pay for and want this really bare bones primary care service seems minuscule, particularly on the scale of Amazon.

And so I don't think it's going to drive a whole lot of new people to it, and I don't think it's going to keep a lot of people who are wavering. Because once you're in the Prime ecosystem, you generally stick around. I mean, their renewal rates are incredibly high.

Jeremy Goldman:

Well, that's why I think that it's really about that first group about who can you access that you wouldn't have gotten before.

Marcus Johnson:

Who can you get off the sidelines.

Jeremy Goldman:

I mean, I saw this data about more than 100 million Americans don't have regular access to primary care, and that number has more than doubled since 2014, which just stands to reason that... I definitely know what you're saying, Zak. It just seems like, well, what else are you going to do if you're trying to grow this already pretty significant base? You offer something that looks a little bit different than what you're offering had looked like until this point.

Zak Stambor:

Yeah. I mean, Amazon has long tried to figure out what to do with healthcare. It's a huge space. It's a huge part of the economy, and it wants to get a hold of it. And it had its high profile flame out with Berkshire Hathaway and JPMorgan. It had another initiative that was mainly focused around telehealth. And I think this acquisition was really just about trying to figure out if it can build some sort of business in this space given a huge scale of what healthcare is within the broader economy.

Marcus Johnson:

Interesting points, gents. I mean, it does depend on how comprehensive this service could be. I mean, you mentioned it's pretty bare bones. Zak, another point I thought was interesting is Amazon as a healthcare brand isn't something people really think of. Josh Lowitz, co-founder of Consumer Intelligence Research Partners, was saying that the challenge for players like Amazon is convincing folks who think of the company primarily for shopping to turn to it as a healthcare option, pointing out that healthcare is a much more intimate relationship to have with the company.

That's what we've got time for for the lead. Skip the halftime report. We move straight to the second half of the show, gents. Let's do it. Today in other news, Bed Bath & Beyond markets its comeback and why Pinterest's Q3 growth surpassed expectations. Story one, Bed Bath & Beyond markets its comeback, writes Olivia Morley of Adweek. She explains the tiny history here. Bed Bath & Beyond filed for bankruptcy and closed its stores earlier this year. Overstock.com bought the brand and relaunched it online in August.

Overstock retired its name and website adopting Bed Bath & Beyond's branding. The new site combines both inventories. Bed Bath just launched its comeback campaign called An Icon Returns, where the company's well-known 20% off coupon is shown on billboards, TV ads, et cetera. Zak, what'd you make of the retailer's comeback?

Zak Stambor:

You know, Overstock was struggling before it rebranded. It's struggling now. Its net loss was nearly double it's net loss a year ago. It saw declines in its average order value. It saw a decline in its number of active users. It's operating in a really tough space. Home furnishings and furniture is not a good space to be in right now.

And one of the things that it pointed to when it bought the Bed Bath & Beyond assets is that Bed Bath & Beyond is a really recognizable brand, but part of the reason that it's so recognizable is because it had a ton of stores. But without the stores, you don't think of Bed Bath & Beyond nearly as much as you did when you saw it when you were driving in your car or walking down the street.

And so as a result, I don't know what's going to happen here unless Overstock decides to venture into source, which is a business it really never has attempted to play it.

Marcus Johnson:

Story two. Jeremy, you were recently pointing out that Pinterest's Q3 growth surpassed expectations, saying that revenues of nearly $800 million in the quarter, good enough for 11% year on year growth. Users were just shy of 500 million, growing 8%. Average revenue per user was also up. But Jeremy, why was Pinterest able to overachieve in the quarter?

Jeremy Goldman:

So I think that a number of different advertising driven companies outperformed as I think we actually wrote about quite a while ago. We said towards the end of the year that numbers would look better because everybody would be competing with lower expectations in relation to last year. And that's what we really saw with Meta, with Snap, Google, Amazon we just discussed, Microsoft. Some of those had mixed results, but their advertising businesses were pretty consistent.

And with Pinterest, you really see the same thing. I think part of the interesting story there is that they've launched a number of different innovative things like direct links, which allow users to access a retailer's website directly with a single click bypassing the need to navigate through a Pinterest product page. Things like that that they're doing are working.

But the big issue is that they are still small and they have been small for quite some time in relation to some of the leaders in this space, which kind of almost begs the question, is there anything that they can do to move up a tier as a player in this space? And it's not really clear that there is a positive answer to that.

Marcus Johnson:

What can we expect next year? We think Pinterest's US ad revenues will grow just 4% this year, but we are expecting them to bounce to 14% next year. So from four this year to 14 next year. I wasn't sure why we had that. So when I asked Zach Goldner, who you've probably heard on the weekly listen who is on a forecasting team who worked on this forecast, he said two reasons for the acceleration next year for Pinterest.

One, ad loads relatively low, 20 to 25%, and so analysts believe the company could ramp this up in the coming years increasing inventory. Number two, generative AI will help with content relevancy similar to how it did on Instagram Reels and should also improve ad targeting. That's what we've got time for for this episode. Gents, thank you so much for hanging out. Thank you to Jeremy.

Jeremy Goldman:

Thank you so much as always. This was fantastic.

Marcus Johnson:

And thank you to Zak.

Zak Stambor:

Thanks for having me.

Marcus Johnson:

And thank you to Victoria, who edits the show, James, who copy edits it, Stuart, who runs the team, and Sophie, who does our social media. Thanks to everyone for listening in. You can hang out tomorrow with host Sarah Libo on the Reimagining Retail Show as she speaks with analysts Carina Perkins and Blake Droesch, all about the differences between UK and US grocery.