Amazon is becoming an advertising juggernaut

The news: Amazon returned to profitability in Q3 as net sales grew 15% year-over-year (YoY), but revenues came in slightly below analysts’ expectations as macroeconomic factors weighed on sales.

- The retailer reversed its quarterly loss streak with $2.87 billion in net income, but its North America and international segments both reported operating losses.
- Advertising revenues grew by 25% YoY to $9.55 billion, above StreetAccount’s estimate of $9.48 billion.
Amazon now expects Q4 net sales to grow between 2% and 8%, which is less than some analysts anticipated.

**Cost-cutting measures in play:** Under CEO Andy Jassy, Amazon has tightened its focus on its core businesses—like ecommerce, grocery, advertising, and AWS—while aggressively cutting costs wherever possible.

- In recent months, Amazon has frozen hiring across its corporate retail division, canceled warehouse construction and leases, and closed most of its US call centers.
- The company has pulled back on experimental projects, including initiatives at its moonshots lab and its Scout autonomous delivery robot, and shut down Canvas, the warehouse robotics startup it acquired for over $100 million in 2019.
- Amazon has also attempted to turn its warehouse overexpansion into a revenue opportunity by offering its excess capacity to merchants on its platform.
- Still, its North America and international retail businesses recorded a combined operating loss of $2.88 billion, which suggests the company has not yet figured out a way to return its retail business to profitability.

**Recession-proof:** While Amazon is by no means immune to the broader slowdown in discretionary spending, it is better equipped than most retailers to ride out the storm.

- The retailer’s decision to add a second Prime sale to the calendar gave it an opportunity to capture a larger portion of holiday sales and get rid of inventory, despite lackluster results.
- More advertisers are turning to Amazon's retail media network to circumvent Apple's privacy changes and get closer to shoppers. That explains why Amazon’s ad sales have grown dramatically while those at Meta, YouTube, Snap, and Pinterest have fallen.
Looking ahead: One key to understanding Amazon's priorities is to look at its acquisitions.

- In August, the company announced it would purchase robot vacuum manufacturer iRobot for $1.7 billion in a move calculated to reinforce its smart home dominance and give it an added Prime Day boost.
- In September, the retailer acquired robotics startup Cloostermans to ramp up warehouse automation and help address its growing people problem.
Amazon's $3.9 billion purchase of primary care provider **One Medical** and its failed bid for healthcare platform **Signify Health** signal the company’s ambitions to expand into areas where it's likely to be subject to less antitrust oversight.

**The big takeaway:** Amazon may be well-positioned to cope with a downturn in consumer spending, but its outlook is by no means rosy. Its inability to record a profit for its retail business despite relatively strong sales growth—and a Prime Day boost—suggests a tension between its desire to offer as much convenience as possible, and the vast amount of resources required to do so.

Still, strong advertising growth and AWS revenues will help keep the flywheel turning in Q4 and beyond.

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