


# The Daily: How Amazon was able to sell more, its new AI shopping assistant, and just how large is Amazon's ad business?

Audio



On today's podcast episode, we discuss how Amazon turned its ecommerce business around, how much its new AI shopping assistant moves the needle, and what's really driving its ad business. Tune in to the discussion with our analyst Zak Stambor and vice president of content Paul Verna.

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## Episode Transcript:

Marcus Johnson:

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Zak Stambor:

But if this Rufus actually enables you to get better insights into what it is that you're buying, well, that could actually make Amazon a different sort of place, a different sort of a shopping experience.

Marcus Johnson:

Hey gang, it's Tuesday, February 13th, Paul, Zak, and listeners, welcome to the Behind the Numbers Daily: an eMarketer Podcast made possible by StackAdapt. I'm Marcus. Today, I'm joined by two folks. We first introduce our senior analyst covering everything retail and e-commerce based, close to Chicago, Zak Stambor.

Zak Stambor:

Hey, Marcus. Hey, Paul.

Marcus Johnson:

Hey, fella. We're also joined by Paul Verna, who is one of our vice presidents of content based just above New York City.

Paul Verna:

Hey, Marcus. Hey, Zak. Zak, I don't know if I knew you were in Chicago or if I did, I completely forgot, so very cool.

Zak Stambor:

Yep.

Paul Verna:

It's a long tradition in our company.

Marcus Johnson:

Nothing to be proud of on the sports front, so that's why Zak keeps it quiet. In the 90s, couldn't shut him up, was all over it. Now, not so much to cheer about. So today's facts, what

is the most stolen food item in the world? Any guesses?

Paul Verna:

The little jelly packs that they have... I guess they're not stolen because they're meant for you to just sort of grab, but-

Marcus Johnson:

Oh, like the free samples?

Paul Verna:

Like in a breakfast bar, you're going to have the little jams and jellies in those little containers.

Zak Stambor:

Does that count?

Marcus Johnson:

Oh, jelly, jam jelly, okay. Oh, that's a good guess, actually.

Paul Verna:

But I don't know if stolen applies there because [inaudible 00:02:08]-

Marcus Johnson:

It depends how many you take. Well-

Paul Verna:

Yeah.

Marcus Johnson:

After you get to double figures, I think you're technically stealing. Zak, any guesses?

Zak Stambor:

I'll say bread, just out of necessity.

Paul Verna:

Like Les Miserables, that's the whole plot.

Zak Stambor:

Exactly, right.

Paul Verna:

The whole plot hinges on that.

Marcus Johnson:

Good guess.

Zak Stambor:

That's what I was thinking of.

Marcus Johnson:

So cheese, apparently. Back in 2011, Time said it was the most stolen food on earth with nearly 4% of cheese inventory worldwide stolen each year.

Paul Verna:

Would've never got-

Marcus Johnson:

Cheese is not that great.

Zak Stambor:

Wow, that's a hot take.

Victoria Grace:

Shut your mouth.

Zak Stambor:

Hi, Victoria.

Victoria Grace:

How dare you?

Marcus Johnson:

That's right.

Victoria Grace:

How dare you?

Marcus Johnson:

I said it.

Paul Verna:

I'm thinking of those giant wheels of Parmesan that are like the size of the very big wheel-

Marcus Johnson:

Just wheel one out.

Paul Verna:

... On a tractor, on like a farm tractor. You basically just roll it out of the warehouse. You need a pickup truck, but you can't even put it into a regular car.

Marcus Johnson:

Luckily, most Americans have one for some ungodly reason, considering no one has anything in the flatbed ever.

Paul Verna:

That is totally true and a whole other story.

Marcus Johnson:

All right, I will say I don't hate a good brie, so maybe I do like cheese. Sorry, Victoria. Today's real topic is about Amazon.

In today's episode, first in the lead we'll cover how the different parts of Amazon's business have been performing. No other news today. Let's get to it, folks. So, let's start by talking about how they're doing overall. In Q4, Amazon made \$170 billion, 1-7-0 in top line sales.



That's up 14%. That's better than the previous Q4's nine, but if we break Amazon into little pieces, then one of the main line items where they get most of their money still is online store sales, and in Q4 they made 70, \$7-0 billion in online store sales revenue worldwide. That's up 9% year-on-year. The previous Q4, it was down two, so from negative two to plus nine in a year, Q4 to Q4. Time to play the newly renamed slice of pie, formerly blame pie, where Zak is going to create a pie chart of reasons as to why Amazon managed to turn around its online store sales line item this Q4.

Zak Stambor:

A pie chart, perfect for an audio medium. I'll start with 33% going to delivery speed.

Marcus Johnson:

How much?

Zak Stambor:

A third, 33%.

Marcus Johnson:

Okay.

Zak Stambor:

Amazon's shipping network evolved over the past year from a national model to a regional model where there are eight zones that operate roughly independently and that's dramatically expanded the share of orders that are delivered the same day or next day and fast delivery times increase order frequency because if you know that your toilet paper will arrive that afternoon, you don't need to run to the store to get toilet paper because you feel comfortable that it will be there, so that's a third.

I'll do another third for just Amazon Prime as a whole, roughly like 73% of US internet users belong to Prime, and once you pay for a membership service like Prime, you want to get value out of it, and Amazon just continues to improve the value of Prime, both with improving delivery speed and having exclusive events like the Prime Big Deal Days that it hosted in October, and then I'll do the final third for the marketplace. The marketplace accounts for almost two-thirds of Amazon sales and is really responsible for the huge tail that Amazon



offers, which is why people go to Amazon because you can get just about anything that you want there.

Marcus Johnson:

All right, so we've got a third for faster delivery, one third for Prime as a whole, and a third for the marketplace. Let's talk quickly about the marketplace because things might be changing there in terms of Amazon's responsibility for the things that get sold on its marketplace. Our Rachel Wolf explains that Amazon could become liable for the safety of goods sold on its third party marketplace under an order currently being prepared by the US Consumer Product Safety Commission, CPSC. According to the Wall Street Journal, "The order would classify Amazon's e-commerce business as a distributor of goods, which would require the retailer to adhere to the same safety responsibilities as traditional retailers," Rachel writes. So Zak, how much could this new safety of goods sold order affect marketplaces like Amazon's?

Zak Stambor:

I think this is huge. I'm not one for big announcements, but I think it would utterly transform the way that e-commerce operates in the United States. Marketplaces accounted for about a third of us e-commerce sales last year, and net share is growing, as just about everyone has launched an online marketplace over the past few years. And if operators are liable, then it would immediately force them to alter the way that they operate and have a much more watchful eye on who is selling what on their platform. And ultimately I think that would hurt the small and mid-sized retailers that rely on these marketplaces to drive sales.

Marcus Johnson:

So, it's a big deal, as you said, marketplace sales going up is 60% of the sales more than on Amazon's site coming from third party sellers. As you mentioned as well, this could affect all marketplaces: Walmart, eBay, beyond, so not just Amazon's. Amazon's argument is that they're not responsible for policing products sold by outside merchants because its task is to simply connect sellers with buyers on its marketplace, but we'll see if that line of thinking or reasoning or defense holds up.

One point I wanted to mention, actually, just to boomerang back the slice of pie question about Amazon's online store sales line item. Interesting to see, Zak, that money from selling things online is a smaller part of Amazon's business today than it has been any time in the past. From 2020 to today, the share of money Amazon makes from online store sales has gone

from over 50% of its total revenue to 40% today. Dollars still going up, but the share coming down as some of those other parts of the business start to grow. We'll talk about a few at least one of those in a second, but staying with buying things online, Zak, Amazon's launched an AI-powered shopping assistant called Rufus on its mobile app to a few customers to start before rolling out more broadly later. The AI shopping assistant is trained on the company's product catalog, customer reviews, community questions and shoppers can ask Rufus about things like sizing, for example, and then it will surface relevant information about that question. How much do you expect Rufus to move the online shopping needle out of 10?

Zak Stambor:

I think a five. I am fairly bold on this. I think it's really interesting. Amazon's not a fun or engaging experience no matter how many times Amazon has tried to move the needle in that way with social initiatives or live-streaming or anything else. And so as a result, Amazon's largely a place where you go when you know exactly what it is that you need, whether it's toilet paper, laundry detergent, or anything else like that. And while they sell a ton of other stuff like furniture and apparel, the experience of buying those things on Amazon has never been particularly great. It's more decent and an efficient way of buying that sort of stuff, but if this Rufus actually enables you to get better insights into what it is that you're buying, well, that could actually make Amazon a different sort of place, a different sort of a shopping experience.

Marcus Johnson:

Paul, any thoughts on this AI shopping assistant?

Paul Verna:

I agree with Zak that Amazon generally is a place where you're going to be able to get the thing you need. It's not a particularly dynamic or fun experience. And actually for that reason, I think rolling out a tool that can help personalize it a little bit and allow you to maybe work through some of the limitations of Amazon search... Amazon is so vast that sometimes you're searching for something specific, but you still get a lot of noisy input. So, if you're able to personalize that search, make it conversational, and get a result that gets you closer to what you need, it would make Amazon a little bit more of kind of a destination, someplace that people want to go to because they know they're going to get some interesting results and maybe have a little fun doing it.

Marcus Johnson:

All right, so I also wanted to talk about Amazon and how they sell things, not just online, but in stores, Amazon made \$20 billion in physical store sales in 2023. It's basically the same amount of money as they made from stores in 2022, the year before. What's interesting about this though, Zak, is that Q4 physical store sales only accounted for 3% of its total revenue. That's the lowest it's ever been. At the start of 2019, it was more than double that, accounting for 7% of all the money Amazon made. So the question is, what is the next phase of Amazon's in-store strategy?

Zak Stambor:

So, I think it's not surprising that it was such a small piece in Q4 of last year because Amazon really retreated from in the physical store space throughout much of last year, pulling back on Amazon Fresh and not really pushing into many new directions aside from recalibrating the Amazon Fresh stores for a rollout for this year. So, I think we'll see some of that rollout of this year, but as I've said before on other podcasts, they have such a small footprint that I think it's more a place for experimentation than something that has a large effect on Amazon's broader business.

Marcus Johnson:

So as I mentioned before, the share of money that Amazon makes from selling things online is going down. It's gone from 50 to 40% over the last couple of years and that's because the money it makes from things like AWS, which is getting close to a \$100 billion business, that slice of the pie has gone from 13% to 16% in just a couple of years, and another line item that's growing is advertising. No one will be shocked to hear in Q4 Amazon made 15 billion, 1-5 billion in ad revenues worldwide. That's up a remarkable 27% year-on-year. So Paul, we'll play slice of pie here. How was Amazon able to register its fastest quarterly ad revenue growth in two years this past Q4?

Paul Verna:

Well, bear with me because we're doing some complex math here. So, the pie is actually a large pizza and at this pizza dinner party, there are six people. There is one very hungry person who's going to eat exactly half of the slices or half of the pie.

Marcus Johnson:

Greedy.

Paul Verna:

Greedy, but also this is the retail media search person. So, that's about how much she gets.

Marcus Johnson:

Understandable.

Paul Verna:

Another person is moderately hungry, this is the retail media search person. So if you think of it as six slices, the retail media search person has eaten three, the retail media display person has eaten two, so now there's one slice left. All of a sudden, four people show up to this party, they've all eaten before they got there, so they're not hungry and they're just going to nibble at this one slice that's one-sixth of the pizza.

Marcus Johnson:

They're going to share a slice?

Paul Verna:

They're going to actually cut it into four pieces, believe it or not.

Marcus Johnson:

That's crazy.

Paul Verna:

So, these are going to be thin little strips of a pizza.

Marcus Johnson:

It's never happened in the history of the world.

Paul Verna:

But like I said, they've already eaten, so they're just kind of doing it to be polite, so these are the CTV people. So, you're going to have your NFL, your OTT in general, you're going to have your Prime Video, and you're going to have your Freevee, and your FAST Channels, so all of

those people are basically contributing to this CTV portion or drawing from that CTV portion. So, that's basically how I look at it. It's all about retail media. Amazon has still just under now three quarters of the retail media market in the US, 10 times the amount of its second competitor. And in terms of CTV, that slice is just going to keep growing, and I think when we do this next year, it'll probably be a bigger part of the pie and it's going to lean more toward the Prime Video side because of rolling out ads across all of that platform, not just the NFL ads they've sold.

Now, if you asked me specifically what happened in Q4 that led to this, I don't think Q4 was particularly anomalous for them. I think it's just more of what they've already been doing and really what Amazon has done extremely well is positioned themselves in the very center of what's hot and growing in digital advertising, which of course is retail media and CTV.

Those are the two biggest categories and Amazon completely dominates one and is getting more and more involved in the second one, and that is also why we now think of this as a triopoly because if you look at total digital advertising share, Amazon is growing that share as well. So, Amazon will have over 14% of all of digital advertising this year and that is going to go up by another percentage point next year, and it's been growing steadily. So, every year they just carve out a bigger portion of that total pie, so now it's really a world where you've got Google, Meta, and Amazon in that order, but much more sort of like equal players than the duopoly plus Amazon off to the side as it was five years ago.

Marcus Johnson:

Amazon's and business getting notably larger. Amazon made \$50 billion from ads in 2023. That would be over a third what Meta made, so it's catching Meta as a whole. Money from advertising contributing to a larger part of Amazon's overall pool of money from 2021 to today, the share of money Amazon made from advertising revenue has gone from 6% to 8%, so it's making up a growing share slice of its own moneymaking pie. And for the few reasons that you mentioned, retail media obviously, but I thought it was interesting, Daniel Constantinovich noting Morgan Stanley forecast Prime Video would generate over 3 billion in ad revenues in its first year and reach 7 billion by 2026.

And then as you mentioned, its football endeavors. Thursday Night Football hit viewership milestones in 2023. The first game of the season, up 16% year-on-year, and then it had the Black Friday marquee football events, the kind of Mini Super Bowl as it was nicknamed, selling 30-second ad spots for 600 grand a piece, which is pretty impressive. Time for grades, gents.

What grade would you give to Amazon for their Q4 and then also for their overall 2023 performance? Zak, let's start with you.

Zak Stambor:

I think I would give it an A in Q4. I think it was a very, very strong quarter, perhaps an A- for the year, given all the turmoil that it went through earlier in the year with layoffs and pulling back from a lot of ventures that may not bear fruit in the short term, but perhaps over the long term could have. But as it's focused on its core competencies, it just decided to pull back.

Marcus Johnson:

Paul.

Paul Verna:

I think I'm going to do the same for slightly different reasons. An A is inevitable because Amazon, like I said, it just completely dominates retail media and is actually not just the dominant player, but the fastest growing, which is scary when you think about that, at already three quarters of the market. I think in terms of the CTV side of the business, I would ding them a little bit because of the way they rolled out or the way they announced the Prime Video ad tier, which is basically forcing people to pay on top of their Prime subscriptions to avoid ads.

Whereas I think other services were a little more gentle about that and gave people a choice to scale up to the other tier or scale down. So, I think that was a little bit of a cheap shot and I also think they've had some growing pains in rolling that out, so rather than do it by Q4 versus the whole year, I'm giving my grades based on retail media and CTV on the other side. So retail media A, CTV A-, and that was probably consistent through the year. No big spikes in Q4.

Marcus Johnson:

So A for Q4, A- consensus for 2023. I just wanted to quickly zoom out and take a 30,000-foot view. In 2023, Amazon made \$570 billion, as faster growth than 2022, and more impressively than that, it's more than double the amount of money they made in 2019. So just four years ago, they've doubled how much revenue they are pulling in. That's what we've got time for today's episode. Thank you so much, gents. Thank you to Zak.

Zak Stambor:

Thanks for having me.

Marcus Johnson:

Of course. Thank you to Paul.

Paul Verna:

Thanks for having me.

Marcus Johnson:

Yes, sir. Thank you to Victoria who edits the show and the rest of the gang, James, Stuart, and Sophie. Thanks to everyone for listening into the Behind the Numbers Daily: an eMarketer podcast made possible by StackAdapt. Tune in tomorrow to hang out with Sarah Libo on the Reimagining Retail show where she speaks with Blake Driesch and Jeremy Goldman all about how alcohol sales are changing.