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Amazon's cost-cutting measures continue

Article

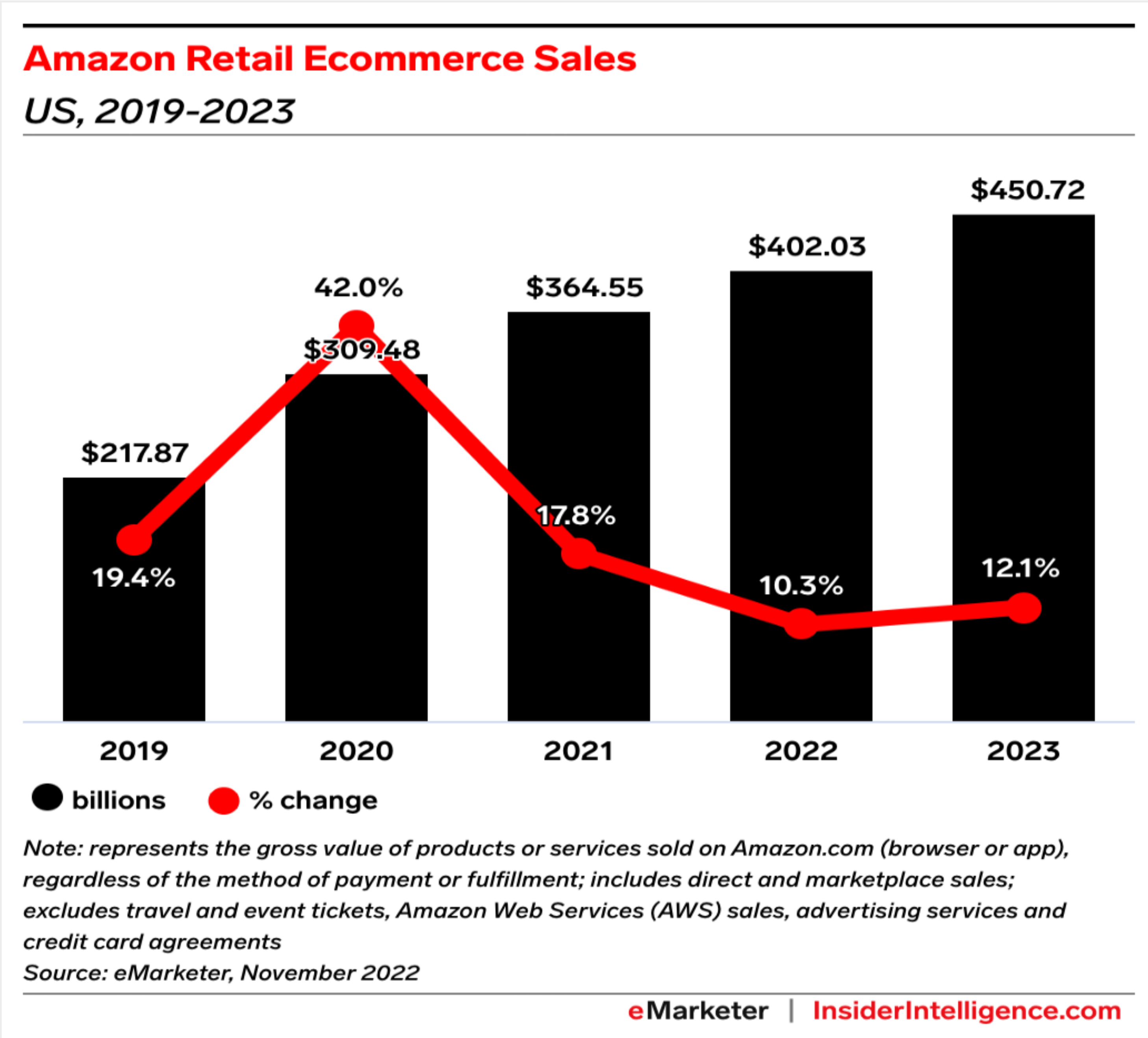
The news: Amazon plans to lay off over 18,000 employees—nearly double the number the company initially said it would cut—as it wrestles with bloated operating expenses and softening consumer demand, per The Wall Street Journal.

- The majority of the cuts will be directed at the company's retail and recruiting divisions, CEO **Andy Jassy** said in a letter to employees.
- The announcement comes shortly after Amazon revealed it had obtained an $8 billion unsecured loan to help shore up its business amid global macroeconomic headwinds, per an

SEC filing.

How we got here: The expanded cuts are Amazon's latest attempt to get costs under control after embarking on an overly optimistic course of rapid expansion during the first two years of the pandemic.

- The retailer added roughly 262 million square feet of warehouse space in 2020 and 2021, per data from MWPVL International cited by Insider. While growth slowed significantly in 2022, **the company's warehouse footprint still expanded by an estimated 52 million square feet—roughly one-third of Walmart's total US warehouse capacity**.
- According to MWPVL's estimates (which Amazon fiercely disputes), Amazon currently uses around 65% of its total warehouse capacity, compared with 85% in 2019. MWPVL president **Marc Wulfraat** thinks it could take two to three years until the retailer returns to its pre-pandemic utilization levels.
- In the meantime, Amazon has tried to cut its losses with a variety of measures, from subletting excess space to letting sellers store inventory long-term in its distribution centers to giving third-party retailers access to its logistics network and fast fulfillment via Buy with Prime.



Government scrutiny intensifies: While the company navigates a difficult economic landscape, its business practices have come under fire from lawmakers in Europe and the US.

- In a major shift, Amazon reached a settlement with EU regulators that would see the company expand access to its buy box, stop using merchant data for its own retail business, and allow sellers to use third-party solutions for Prime fulfillment—but only in the region.
- The retailer is facing an antitrust challenge from California's attorney general that accuses the company of using its market power to penalize merchants who try to list their products at

lower prices on competitors' sites.

- Regulators are also taking a closer look at how counterfeiters and other bad actors use marketplaces like Amazon to hawk stolen or fraudulent goods, which could lead to stricter oversight and more severe penalties for infractions.

The big takeaway: Despite the headwinds buffeting the company, Amazon is more optimistic than most about the broader economic landscape. According to an internal analysis reported on by Insider, the retailer's economists believe there's just a 30% chance of the US entering a recession within the next six months. But given that Amazon's current situation is partly a function of its inability to predict that ecommerce demand would slow once COVID-19 restrictions were lifted, it makes sense that the company is preparing itself for the worst.

- Still, while Amazon's renewed focus on containing costs is a necessary corrective from its prior freewheeling approach to spending, there is always the risk that excessive penny-pinching could hurt the company's ability to continue innovating.

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