

ResearchFARM

NEW REPORT

AMAZON LOGISTICS 2017

Real Insights – New ResearchFarm Flagship report



January 2017

AMAZON LOGISTICS 2017 REPORT

Shipping has always been a principal driver of Amazon's strategic investments.

Arguably the most innovative Amazon business unit is currently **Amazon logistics**. The unit deals with much more than just the logistics by which it ships orders to its customers. **Amazon is edging closer to operating a full end-to-end retail model as it beefs up its logistics operations with the ultimate aim of reducing its reliance on third-party delivery companies.**

And building out a huge logistics network is **classic marketplace thinking: better and faster logistics attracts more shoppers and this in turn attracts more 3P sellers, so the flywheel effect will start to kick in again.**

In future Amazon could **expand Amazon Logistics to become the de facto carrier for all Amazon sales. (This would point to classic ecosystem thinking).** The new logistics business will open cross-border commerce to smaller merchants who otherwise wouldn't bother with it. That in turn would make many more products available to Amazon shoppers around the world.

In future working with Amazon logistics means partnering suppliers will need to optimise and speed up their processes too. Amazon will steer these processes among various suppliers, as it is the only player in this system who can do so and coordinate. **Once again more flexibility as a result of picking up from suppliers is also a key concern for Amazon.**

In short, Amazon wants to control every link in the supply chain, from sourcing the product to warehousing and now delivery to the doorstep. In certain categories, such as book publishing, it is also manufacturing the product. Owning its own trucking network and drones are part of the last-mile strategy. Such dominance helps iron out inefficiencies in the system, yielding

margins. It also enables the company to offer a radically innovative and much better logistics solution (from Prime Now to drones) than currently available on the market.

Moreover in terms of the last mile, Amazon is building out a **proprietary infrastructure and network without investing that much** into new employees, logistics fleets or by founding a standalone company. For Amazon delivering parcels does not mean running their own service. All it needs is a DC in or close to the city and instead of cooperating with the established logistics providers the online retailer can hire citizen couriers akin to Uber drivers for the last mile. By doing so, much of the risk is outsourced as well.

Amazon is betting that there is soon to be a disruption in distribution processes and costs, both in terms of driverless cars and trucks and fuel (EV, etc). Amazon think that being in that space as those changes begin can be valuable as disruptions mean that market leaders are no longer automatically leaders. And when things change one can really grow.

Data: Average annual spend 11 – 15, USA, DE, Japan, UK, France

	FYE 2011	FYE 2012	FY 2013	FY 2014
USA (in US\$m)	26,705	34,813	44,517	55,111
Active customer accounts (in m)	88.9	114.0	141.0	171.1
Average annual spend (in US\$)	300.5	305.5	315.7	321.6
Germany (in €m)	5,198	6,793	7,935	9,441
Active customer accounts (in m)	24.1	28.6	32.0	36.1
Average annual spend (in €)	216.0	237.7	248.0	261.5
Japan (in ¥m)	524,041	622,284	746,407	944,111
Active customer accounts (in m)	21.9	25.5	29.0	33.1
Average annual spend (in ¥)	23,945.3	24,370	25,738	28,521
UK (in £m)	3,334	4,088	4,662	5,441
Active customer accounts (in m)	17.8	21.2	23.0	26.1
Average annual spend (in £)	187.3	192.8	202.7	208.9
France (in €m)	1,339	1,901	2,240	2,741
Active customer accounts (in m)	6.2	8.0	9.0	10.1
Average annual spend (in €)	216.0	237.7	248.9	271.1

FEATURES & METHODOLOGY

Data, stats and KPIs on:

- 1P Sales and average best seller prices, by geography in \$m
- Total units, customers numbers, Shopping frequency per country
- Average order values from Amazon 1P in its major geographies in 2013-2016
- Shipping costs estimates for 1P and 3P
- A combination of data sources from insider reports and Amazon best seller tracker data allows us to triangulate data and come up with unique insights into Amazon's strategy and the numbers behind it.





DRAGON BOAT PROJECT

GLOBAL SUPPLY CHAIN

- What is “Consume the City”? What is “Project Dragon Boat”? What is “Global Supply Chain by Amazon”? What is “Operation Aerosmith”?
- Is Amazon trying to force FedEx and UPS out of business? Is logistics purely about marketplace and ecosystem integration or is it a way to fend off Google and Facebook? Or is it all about the threat from Alibaba?
- What will be the effect on FedEx and UPS? Currently Amazon contributes around \$1bn to UPS’s revenue. Amazon also helps both to be more cost effective by allowing drivers to drop off more packages in the same areas. Will Amazon Logistics lead to inefficiencies at the 3P carriers?
- How much of a discount does Amazon get from the likes of FedEx and UPS?
- What are the unit costs for logistics (1P and 3P FBA)? Costs per item shipped?

AIRFREIGHT OPERATION

FULLFILMENT



- What are the 8 strategic reasons, why Amazon is getting so heavily involved in logistics?
- How many million packages a day can the Wilmington Air Park move? A Boeing 767 can accommodate up to 19 pallets, each measuring 88 by 125 inches at the base. How big are the monthly leasing costs?



TRACKING THE LAST MILE

OUTBOUND SHIPPING

- **Inbound logistics** – will preferred carrier programmes take over? At current, more than 1,000 different logistics suppliers are docking at Amazon's DCs every year. How much room is there for rationalisation and what will be the effects?
- **Outbound shipping**, is it all about same day deliveries? What is the future target? According to estimates Amazon Logistics may deliver a massive 80% of all Amazon and FBA sales in the UK. Will Amazon Logistics become compulsory for FBA sellers? Both for inbound and outbound?

AMAZON KIVA

SAME DAY DELIVERIES



- How is Amazon reducing space usage in the DCs? This gets done in two ways: through network effects between FCs and new technological solutions. By how much does kiva reduce space requirements in warehouses?
- How many items/units in total (1P and 3P) did Amazon send out in 2015?

AMAZON LOCKERS

REASONS FOR THE ROLL OUT



- Lockers: What are the 7 reasons why lockers and click & collect work so well for Amazon logistically?
- What is the usage rate for Amazon lockers? How big is their annual turnover?



DRONES

PONY EXPRESS LIKE PATENT

- Drones: how will they be combined with trucks? How will driverless trucks be integrated into Amazon' logistics business? When will drones be the present rather than the future? Will Drones be combined with warehouses manned by robots and trucks that drive themselves to unlock a new autonomous future for Amazon? And in this sense would Amazon very much replace its third party shipping companies of today?
- Packages of up to five pounds in weight, ideal for drones account for what percentage of Amazon's deliveries?

AMAZON LOGISTICS

SAMPLE CONTENT

- The most effective way would be to use sophisticated algorithms to establish the quickest routes covering the least distance. This has the drawback that while the driver will have covered less miles that on the other hand he or she will not know the surroundings and will have to look for the right address, bell, etc.
- Amazon want to achieve exactly the opposite. For doing so they have divided the city into several zones. The experience so far is that once drivers have been working for 4 weeks in one of the zones, their performance significantly picks up. Drivers then know which shoppers are always at home in the mid morning, which neighbour is happy to take orders on behalf of the shopper and where it is easiest to park their van/car.
- Market leader DHL and their drivers have this kind of local knowledge, Amazon though wants to go one step further and make this information accessible to their computer systems and algorithms. The system is supposed to save the exact spot where a driver should hand over a delivery – up to a single meter.
- This means doors become important, especially as many entrances are not where one would assume from a map (but perhaps around the corner etc). This then means the driver would park his vehicle at the wrong point and the driver would have to walk much longer than necessary.
- This is a pain point Amazon tries to eradicate. If a customer wants the delivery to be left at the dog house, then Amazon wants the geo location data of this dog house. This would also mean a substitute driver could be doing the job without having to search afresh for the drop off point.
- Amazon also lets its drivers take photos of the opening times of companies with their handheld devices, with the system applying image recognition to save the data. In theory drop off points could also be photographed, if that is required by the shopper.
- **During Berlin's ramp up 15 cars were operational on 6 days a week and delivered 10,000 parcels per day. For the holiday period the company wants to double the number of vehicles and 350 couriers will deliver orders.**

BENEFITS

AMAZON LOGISTICS 2017

- Access to data analysis on a range of Amazon businesses
- In-depth understanding of Amazon's logistics strategy
- Leverage key insights for your own growth strategy by copying successful innovations and the Amazon way of doing things
- Understand how to copy winning strategies
- Prepare for the future of retail, where Amazon will sit at the heart of a massive ecosystem, creating a multitude of new winners and losers
- Grasp which manufacturers, retailers and logistics providers have to fear a new competitor and identify the opportunity for those who want to join the ecosystem
- Understand the threat and opportunity that is Amazon from a strategy standpoint and a numbers perspective
- Gain key insights into one of the most active and innovative retail companies in the world

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