

amazon go



Amazon 2019: Growth as a service,
the cross category killer

ResearchFARM
Retail Analysts

Introduction: Amazon 2019 the cross category killer

- To the occasional visitor to the USA, it might seem as if Amazon has taken over America. The retailer is siphoning off spend on Whole Foods, as well as generating income from AmazonGo/book stores/4star. An Alexa powered Echo can be found in the hotel/hire car, as can PrimeVideo, prime labelled vans are everywhere and so on. And all of this a visitor would notice without having had any interaction with the main legacy website. To put it in other words: between Amazon retail (1P and 3P), devices and Prime Video, hardly a day goes by when fewer than 100 million people touch Amazon.
- Its recent standout innovation AmazonGo is truly revolutionary, while other retailers have introduced their own checkout-free scan-and-go services, Amazon Go's "Just Walk Out Shopping" technology has taken that convenience experience up several notches.
- For the Go stores, Amazon can claim that it has solved stealing, maybe someone

could hack the bar code on entry – but for the moment shoplifting has been abolished. The concept uses Amazon's amazing computer abilities (using AmazonPay and AWS of course, also the computer vision also used in its facial recognition software) to scale, just as the retailer created synergies between prime, marketplace and FBA.

In future, Amazon could grow the concept and license the cashierless technology to other convenience retailers. (We are really curious what Amazon's preconditions would be for this – such as prime membership for a rival retailer's shoppers to use the service?) •

Moving from Amazon's front end stores to logistics, one can claim that Amazon is now a better logistics operator than Walmart, as it has grown its footprint of fulfillment centres, sort centers and so on – and indeed the entire Amazon Logistics business. The comparison between the two is especially enlightening when looking at delivery speed. Walmart's two

million items (for two day shipping) is no match for Amazon's one hundred million (prime eligible). And now Amazon is moving towards one – day prime deliveries as standard, as always keeping several steps ahead of the competition.

Amazon has also been highly innovative with its new warehouse and sort center robots Xanthus and Pegasus (In September 2017 Amazon had > 100k robots in their warehouses, now there are 200k) – and in future the use of drones, self driving cars and delivery robots on the other end of last mile fulfillment.

In terms of the marketplace there have been major changes also. In future it looks like Amazon will de-emphasize its 1 Party business and let 3P take over (apart from selected categories that are important for overall branding and shopper experience), as the marketplace generates much better margins, service sales outpace product sales, and 3P relationships can often be self service.

Introduction: Amazon 2019 the cross category killer

- But not all is well, there is trouble on the horizon: The EU's anti-monopoly authority opened a formal investigation into whether Amazon unfairly advantages itself at the expense of merchants and product manufacturer. In the US, at a congressional hearing, legislators tried to find out whether the company uses data gleaned from its site to decide what private label products to make.
- 3P sellers have long complained about Amazon. Besides paying higher fees, many now have to buy advertising to stand out. Some report giving Amazon 40% or more of each transaction, up from 20% a few years ago.
- When Walmart or the Chinese players launch their new marketplaces the idea is that sellers will flock to them. But the reality is that most sellers have a well-oiled process with Amazon. Moreover, as Amazon gets bigger and as more shoppers join Prime, more sellers buy into FBA and get even deeper lock-in

into the Amazon eco system. And this is the rub of it: Amazon provides growth as a service. All of its services - warehousing, fulfillment, international expansion, lending, advertising, etc. - combine into a coherent infrastructure. Amazon is not only the biggest shopping site (by visitor share and reach), but has more than 100 million often high spending Prime members. That, combined with the infrastructure it has built around itself, makes it unassailable - for now.

Looking ahead and away from the scrutiny of oversight, there are some other issues that need addressing: Whole Foods Market is treading water with all growth coming from deliveries. The stores needs new initiatives, a completely new grocery store concept is reportedly in the works.

On the positive side: AWS, advertising and Amazon Business will be great growth drivers going forward and the move into health care looks promising (especially when combining PillPack,

Alexa and Haven etc in future). In conclusion: maybe Amazon have really taken over America already and the game is well and truly over.

Methodology

The report is brought to you by Europe's premier experts on Amazon, featuring anonymised quotes of current and former Amazonians. Our sources for the study include unprecedented access to the company, a proprietary Amazon customer panel, our Amazon Best seller tracker tool, expert opinion and consumer surveys.

Benefits

Access to exclusive data analysis on a range of Amazon businesses

In-depth understanding of Amazon's strategy, gain key insights into one of the most active and innovative retail companies in the world

Find out about growth opportunities and identify Amazon white spaces and weaknesses, understand the risks associated with working with the market leader

Benchmark your performance against the best in class, find out how to future proof your business

Understand Amazon's mindset from its established successful businesses (Marketplace, Prime, AWS, Advertising, logistics etc) bets for the future (Alexa, Haven, drones), and even its failures (mobile wallet, Elements, Fire smartphone, Dash buttons)

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 through having become the essential infrastructure

Understand the threat and opportunity that is Amazon from a strategy standpoint and a numbers perspective, find out how big Amazon will become over the next decade



Features

All your data needs, historic and forecast data:

Sales split per Amazon geography: Detailed statistics about net sales, active customer accounts and prime subscriptions per country

Average order values from Amazon 1P in its major geographies in 2013 -2018, 1P Sales by geography in \$m, average price, total units, customers, frequency

Forecasts for 1P sales, 3P sales and Amazon GMV

Includes shopper research and insight, proprietary customer survey data

Average best seller pricing, Includes data insights mined from our Amazon best seller tracker series, benchmarking Amazon best sellers across geographies

Store visits and exclusive conversations with Amazonians

Heavy recommendation focus, over a ten year horizon, an outlook on Amazon's future towards domination

Key Questions answered: Amazon 2019

• Amazon

- Has Amazon officially taken over? The pieces of the puzzle are all fitting together (prime, marketplace, FBA, advertising, AWS etc) the integration is complete and Amazon has built an unassailable moat – leaving ebay for example in the dust
- How often do Amazon customers buy from 1P on average? Every month, every two weeks, week? Are there significant differences between countries? Who is buying most often?
- Is Amazon now all about selling services, from AWS to advertising and FBA? Why is this growing so much faster than 1P? And what does this mean for the future?
- When it comes to fulfillment centers to handle online orders, Walmart with 20 warehouses is well behind Amazon's 100. But this is not all, so why is Amazon now the logistics benchmark having toppled Walmart from the leading position?

• Marketplace:

- How big is Amazon really in GMV terms, how big is it's 3P business in the US and Germany etc? **How many active customer accounts does Amazon have per country website? What are the growth rates?**
- What are the average best seller prices for the various Amazon market places?
- How many products are listed on Amazon and how many are added daily? How many new sellers join the ecosystem each year? Who are the biggest players?
- When will the "big purge" happen, when most 1P vendors have to become 3P sellers? Why would this even be beneficial to many suppliers?
- How will the Chinese sellers be impacted by tariffs/? And how many are there now?

• Whole Foods Market

- What will happen to WFM, now that all growth comes from delivery? And where would WFM be now without the prime discounts?
 - Was Amazon ever serious about a mass market online grocery proposition or is this something that we are only beginning to see now?
 - What is the latest in Amazon's thinking on grocery stores? What is the new radical format all about?
- ### Amazon Stores
- Why is AmazonGo so revolutionary? Will it really become a US\$4bn business? Why will it probably not come to Whole Foods?
 - What about Amazons other store based businesses? The concessions are now being wound up, what is the future for AmazonBooks?

Key Questions answered: Amazon 2019

• Amazon devices

- Amazon devices, such as the kindle or echo are designed with size and weight in mind, as Amazon controls much of the shipping (and costs) through its own logistics. Is Alexa mainly about deeper buy-in into the Amazon ecosystem for shoppers? Or will voice shopping actually really happen?

What will happen with oversight by Congress and the EU? How could Amazon's business and might be broken up???

- Or is Alexa best understood as a revitalisation of stale Consumer Electronics categories as every formerly dumb household item becomes smart?

• Other

- Why will AmazonBusiness become such a breakout success? How does pillpack fit in with Alexa and Haven and Amazon's health care attack?
- How many prime subscriptions are there per country website? How fast is the rate of subscriptions growing? And what is the future of the loyalty scheme – beyond one day shipping?

Amazon Business: data, market shares, customer profiles

Chart 4

In the US, Amazon Business currently serves...

Data and KPIs: Active customer accounts in m, by country 2009-18, growth

Table 6

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Active Customer accounts	105	130	160	200	237.5	278	304	331.7	363	410
Growth (in %)		23.8	23.1	25	18.8	17.1	9.4	9.1	9.4	12.9
USA	55	71.1	88.9	114	141	171	185	198	208	222
Growth (in %)		29.4	25	28.2	23.7	21.3	8.2	7.0	5.1	6.7
Germany	16.1	20.1	24.1	28.6	32	34.3	36.2	38.1	40	42.3
Growth (in %)		25.2	19.5	18.8	11.9	7.2	5.5	5.2	5.0	5.7
Japan	14.4	19.1	21.9	25.5	29	31	31.1	32.4	34.5	36.6
Growth (in %)		32.8	14.6	16.7	13.6	6.9	0.3	4.2	6.5	6.1
UK	15	14.9	17.8	21.2	23	24.5	25.9	27.2	28.5	30.6
Growth (in %)		-0.6	19.2	19.2	8.5	6.5	5.7	5.0	4.8	7.4
France	4.3	4.1	6.2	8	9	9.7	10.1	11	12	13.5
Growth (in %)		-5.6	53	29.1	12.5	8.1	4.1	8.9	9.1	12.5
Other	0.3	0.7	1.1	2.8	3.9	7.5	16	25	40	65
Growth (in %)		106.3	72.3	150	39.2	92.3	113.3	56.3	60.0	62.5

*Canada and Mexico figures included in US/North America



more than 40%
of the 100 most
populous local
governments

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Data and KPIs: Net Sales & Income, Margin 2008-15, Analysis

Sample page

- Table 1 shows Amazon's amazing growth over the last 5 year period with the retailer growing from \$88.9bn in 2014 to \$232.8bn in 2018 or total growth of 161.7%, which is virtually unheard of for these billion \$ sizes categories, at least in retail. To generate such growth from a low base is no mean feat, to add almost \$200bn to a base of \$34.2bn in just 8 years is truly remarkable.
- Amazon may not yet have the scale that Walmart has as the world's second largest retailer (behind Alibaba), but it is growing much faster and has long overtaken Walmart in market capitalisation.
- Moreover in 8 out of the last 10 years Amazon has been profitable, generating \$18.7bn over the last 8 year period, including the \$39m loss in 2012 and \$241m loss in 2014. Margins have reached a new high in 2018 of 4.3%.

Viewed over a historic timeframe one can detect a slowdown of the growth rate from 2011's 40.6% to – for Amazon's standards – a mere 19.5% in 2014, before rebounding to more than 30% in both 2017 and 2018.

Clearly the growth rate slow down is then more a function of growth from a high base than a diminishing return. It should also be noted that physical, store based retailers would kill for such growth rates and that we are talking about Amazon's net sales which don't factor in the 3P business. Amazon's GMV is much higher, but more on this later.

Outlook: Amazon 2020 forecast, 3P, 1P, GMV

Sample page

- **We forecast that Amazon will generate GMV of \$324 billion in 2019.** 3P Marketplace sales will grow by 20% in 2019 to US\$195bn, representing some 60% of GMV. The 1P business growth slowdown will continue with sales growing by only 11% to US\$129bn.
 - There are a number of negative headwinds slowing Amazon down, such as the Marketplace Sales Tax (Wayfair ruling), obviously the antitrust investigating Amazon's dual role in the market, as well as the EU Commission launching another investigation. In the most likely and depressing scenario, Brexit will also have a significant negative impact, especially on amazon.co.uk.
 - Back in the USA Trump's China Import Tariffs will impact the Chinese sellers on the marketplace, exacerbating existing problems with counterfeits and knockoffs, fake reviews and so on.
- One area Amazon will address is Whole Foods Market, which is clearly treading water with all growth coming from delivery. One dreads to think what shape the business would be in without the prime discounts.
- Whole Foods is but one weapon in Amazon's brick-and-mortar arsenal. Some analysts expect 3,000 Amazon Go cashierless stores by 2021 (We are more cautious on this, simply due to costs and as the volume of repeat shopping patterns is not quite established).
- Clearly this is the company's experimentation phase in brick-and-mortar. Amazon will tinker with various ideas until they find a scaleable concept that they can export globally.



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