

A photograph of an Amazon Prime delivery truck with its rear door open. Two workers in blue uniforms, high-visibility vests, and face masks are loading cardboard boxes onto a pallet. The scene is outdoors on a paved surface with trees in the background.

Amazon 2020 - the Red Cross for the New Normal?

How Covid-19 is affecting the company both for the worse and for the better

Executive Summary

- **Currently there is a broad consensus that Amazon will emerge as one of the winners of the pandemic, however we believe that the picture is actually much more mixed.**
- Covid-19 has undoubtedly been **positive** for Amazon on a number of issues, of which the most salient could be characterised as a **change in public perception, a change in shopping behaviour** towards online and a **vindication of Amazon's technological innovations** and their future potential.
- In the words of one consultant, **Amazon is suddenly perceived as the new Red Cross** by the public, as an essential service and real life saver for those in self isolation and quarantine. This better image might help the company to deflect from the recent issues such as using 3P sellers data for its private label business, poor (and perhaps unsafe) working conditions in its warehouses, the US (and EU) oversight investigations and so on. But this remains to be seen.
- What has helped Amazon is **changed shopping behaviour from the stay at home society**. For how long this trend will last, its strength and maturity, still needs to be seen. There could be second and third waves of the disease, local outbreaks after the easing of the initial lockdowns and restrictions - so Amazon remains an attractive value proposition for stock market investors. It is safe to assume that shoppers will be likely to go out less even when restrictions are lifted. This will mean a greater push for online shopping and especially for online grocery.
- **Thirdly, a number of Amazon's big bets in technological innovations look much better now than just a few months ago.** The Amazon Go stores are almost designed for the Covid 19 shopper. The concept of no queues, no touch payments are the ideal store prototype for the Covid-19 era. Moreover, one of the big drawbacks of the Amazon Go solution, namely that every SKU was being packaged in plastic (to be machine readable) suddenly turns into a plus, as plastics are seen as more hygienic and safe than loose produce.
- The same point about the potential of Amazon's bold tech bets in this new era also hold for drone delivery and push for robotic measures of all types, because these will be ideal for social distancing and guarantee business continuity. We also think that Alexa should benefit from the effects of the pandemic. Touch free, voice activated devices might get a huge push, as sound activation is clearly more hygienic than touch activation. Alexa has also acted as a household help during the crisis as a source of information on the Coronavirus, often in collaboration with local health authorities.
- **The pandemic provides a growth impetus for some product categories** (such as household cleaning products and grocery or PPE) and especially grocery is the big price Amazon has had its eyes on for decades. That said, other product categories important to Amazon have suffered greatly.
- **The pandemic has also led to increased sign ups to prime** (mainly for deliveries benefits, but shoppers are also using much more of prime music and video, or twitch). For Amazon, the investment in moving to 1 day deliveries and the physical infrastructure (from new warehouses and sort centres closer to cities to proprietary Amazon Logistics) associated with it really has paid off. This has meant that Amazon has been able to cope better with the sudden peak, than it would have otherwise, even though delivery times in the USA topped 4 days in some instances, showing there is more to do on this front.
- **And when prime grows, Amazon grows.** The company has stressed that the digital prime benefits really come into their own now (due to increased usage patterns), and the ROI in video and music content and Twitch for that matter is getting better by the minute, as people now engage much more.
- **The pandemic should also be good for Amazon advertising, as much agency spend moves to digital ads** and away from other media as people stay indoors. (A similar point could be made in respect to AWS, as digitalisation in general gets speeded up, driving uptake of cloud services).
- The pandemic has proved beneficial for **acquisitions**, such as Amazon's Deliveroo deal, for which there were serious competition issues to address before the Coronavirus, but which has been waved through against the dire economic background. There is a wider point also, in times of crises there should be lots of distressed, but attractive target companies around in need for cash.
- Another benefit could be **lower oil and fuel prices** and hence lower shipping costs for Amazon and the **potential to hire qualified staff**, as many have or are about to find themselves unemployed.
- The shutting of physical retail shops has also meant that **recruitment of many new retail partners and sellers to the Amazon marketplace** have gone up. Especially smaller independent niche players from the fashion and home sector, whose shops have been closed, now go online on the marketplace platforms eBay and Amazon in an attempt to survive the shutdown. This increases Amazon's range and makes the platform more attractive by offering unique product. Amazon also generates extra income from these sellers, especially as they are likely to go with FBA and purchase ads from Amazon.
- Lastly, Covid-19 has provided a **vindication of the business model** (if this really was still needed). This can be demonstrated by the example of France, where French Amazon shoppers can still buy from the company and the business is still up and running, despite the courts shutting down the warehouses, due to health and safety reasons. Marketplace sellers can use their own shipping to reach customers or use Amazon's global fulfilment and DCs in Germany, Spain or the UK to reach French shoppers.

Executive Summary

- While all this suggests Amazon will emerge as a clear winner from the Coronavirus, **we believe the picture is actually a lot more mixed**. These reasons include Amazon's **reliance on outside partners, infrastructure and warehouses built without social distancing** in mind and the threats from a **considerable darkening of the macroeconomic background**.
- **Amazon is now so big that it reflects the state of the entire economy, especially in the US**. If unemployment and all its related social scars shoot up in this crisis, which we consider the most likely outcome, there will be less disposable income. This will be reflected in Amazon's results as well. Undoubtedly Amazon will grow share, owing to the general shift to online alone, but the overall pie will be reduced. In the worst case scenario the top line growth might not offset the new bottom line costs and spending related to Covid-19. And the company's guidance for Q2 is explicit about exactly this point.
- Related to a great depression like scenario is the **price deflation danger**. It will become much harder to grow the top and bottom line, when every competitor is discounting like mad to stay afloat. Moreover, shoppers tend to spend more on low margin products at the moment, like food and household cleaning products, rather than clothing and luxury items with much higher margins.
- **The bail outs will need to be paid back eventually. Taxes on the digital giants** are easy pickings, and discussed as low hanging fruit even before the pandemic. New taxes will come and this will impact Amazon on a global level.
- **Amazon's business model is reliant on outside partners** and this has become an inherent weakness in these times. **60% of Amazon's GMV comes from 3P sellers** that are **small businesses**. There are a small number of sellers with 100m in sales turnover on the marketplace - the vast majority will need help and financial assistance. In the worst case scenario, if many of these 3P businesses disappeared, this would be bad for Amazon's range. A wide range is one of the major drivers of the flywheel and network effect of the marketplace. But apart from a severely reduced range the effects of losing many of its 3P partners would be bad for Amazon's business itself. This is because service fees from 3P sellers make such a huge contribution to Amazon's bottom line, through their spend on advertising, to be visible on the marketplace, FBA, to get their products in and out of the warehouses, and the commission split on the final consumer price. For sellers the contribution they pay to Amazon can be up to 30-40% and more of the final price.
- **Covid-19 tests the infrastructure set up of the company, in which Amazon has invested so much over the last decades**. Historically, Amazon has always tried to get inventory costs down as much as possible and have a **JIT model**. **This has started to change with 1 day prime already, but now with Covid-19 it is set to get much more extreme**. Amazon will simply have to buy enough stock to be able to satisfy higher levels of demand locally (depending on the category). Probably this will drive the PL business at Amazon - but also tie up cash and impact cashflows going forward. In terms of OSA one solution could perhaps be more vertical integration - for Amazon to go deep into the production vertical and radically widening the private label business.
- On top of this, **business as usual is badly disrupted. There will be no Prime Day in 2020** - to drive top line profitably and grow prime memberships sustainably. A lot of the usual (retail) holiday events are likely to be cancelled too.
- **Coronavirus asks for huge investments to make Amazon operations crisis and peak proof**. Investments in grocery delivery are clearly required. Amazon's grocery proposition and infrastructure, Whole Foods apart, is simply not up to scratch yet. **Amazon needs to become more about friction going forward**, its dealings with cross border flows is set to get harder, as borders and (air)port health issues get policed more in the wake of keeping the disease out of certain territories.
- As Amazon becomes one of the biggest employers in the USA, there will be even more scrutiny. We believe the scrutiny won't come so much on whether Amazon is in a market dominating or abusing position (or not) but on its role as an employer. **Especially in workplace health and safety Amazon has a real job on its hands**. The company needs to introduce a lot more friction into its work processes and become less efficient for the sake of social distancing in its operations.
- Amazon's business and operation has been designed for flexibility but also for maximum efficiency - and as long as there is no vaccine for the Coronavirus, Amazon's warehouse design might be the wrong model for the Covid 19 world. This could be the case, if states become more aggressive in enforcing social distancing laws and hygiene in work places. The current French example demonstrates this point. If Amazon's distribution centres are deemed unsafe, they will be shut down. This would, in the most catastrophic scenario for Amazon, make the investments of the last decades a huge sunk cost and unproductive. This in our view unlikely risk scenario has the company so worried, that it will spend US\$4bn to mitigate this, to avoid a major outbreak at one of its facilities.
- **Looking ahead, for the shorter time frame, seasonality is hugely impacted (for all retailers not just Amazon)**. This also means that the past is no longer the best guide for future performance - and even Amazon with all its data is flying blind to an extent. **Things usually taken for granted are now suddenly up for consideration, such as the capacity for shipping and delivery, cost structure, security of supply and OSA**.
- **While we believe that Amazon will emerge a winner of the crisis, we also think the company would hugely prefer to operate in the old pre Covid-19 world**.

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 -2019, 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 2020

- **Will Amazon really get through Covid-19 without major set backs, seeing operations are returning to “normal” already?**
- How fast will the virus speed up drones and robots deployment? How far will the swing away from efficiency to resilience go at Amazon?
- **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 and Go technology? Why is this growing so much faster than 1P? And what does this mean for the future?
- **How big is Amazon really in GMV terms? How many active customer accounts does Amazon have per country website? What are the growth rates?**

What will happen to WFM, now that all growth comes from delivery? And where would WFM be now without the prime discounts?

What is the latest in Amazon’s thinking on grocery stores? What is the new radical format all about? Will the new LA grocery format with a robot picking solution be the new standard for Amazon’s grocery stores going forward?

Why is AmazonGo so revolutionary? Will it really become a US\$4bn business? Especially now in the Covid-19 era?

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?**

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?

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

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.

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