NEW REPORT

AMAZON 2015

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Retail Analysts

FLAGSHIP REPORT AMAZON 2015

a $100bn + retailer, 3P sales at $115bn, GMV at $200bn+

INSIDE:

Key questions answered + table of contents

September 2015

INTRODUCTION

By judging the sheer amount of Amazon's innovations over a 12 months period from the Twitch acquisition to Prime Day and beyond, one quickly grasps the company's relentless energy to become the "Everything Store". Amazon's astonishing ambition that consumers should only need Amazon for their shopping and entertainment needs is unmatched and, perhaps, attainable.

This report analyses the latest activities of Amazon across its numerous business interests including food (Fresh), cloud computing (Amazon Web Service), Kindle, and online marketplaces, both home and abroad. These are supplemented with key financials and performance indicators that offer deeper insights into the company.

Amazon's loyalty scheme Prime and the 3P marketplace are covered in depth since they are the foundations on which Amazon's catch-all ecosystem is being built. With the stickiness these platforms provide, Amazon can afford to experiment with drones, connected kitchen devices, smartphones and so on to extend its presence in every aspect of shoppers lives.

Amazon is a fascinating and truly unique company. No other retailer has the logistical muscle and self-belief to try and monopolise shoppers' online retail spending. Without genuine competition, Amazon's domination may well know no bounds.

KEY QUESTIONS ANSWERED

- How big are Amazon's net sales per country? How many active customer accounts does Amazon have per country website? What are the growth rates? How many of Amazon's active buyers, those who bought something in the last 12 months, are prime subscribers?

- How many prime subscriptions are there per country website? How many more prime subscribers are there in the USA compared to France? How fast is the rate of subscriptions growing? What are the 7 key benefits prime brings to Amazon? And what is the future of the loyalty scheme?

- How does Amazon Prime work? Why is it so powerful? How successful was Amazon's Prime day? What is significant about its tie up with Alibaba in China?

- What do the Amazon Dash products offer potential customers? How might the products impact grocery shopping habits? Will connected kitchen devices become a real profit centre or will they remain a gimmick?

- What are the average prices of Amazon best sellers? Which country has the highest, which the lowest AOV?

- How often do Amazon customers buy from 1P on average? Every other month, every month, every two weeks? Are there significant differences between countries? Who is buying most often?

- What are the three core factors that Amazon's international expansion strategy is based?

- Why is the online marketplace such a powerful business model? How has Amazon's own Marketplace transformed the company's fortunes?

FEATURES

- Average order values from Amazon 1P in its major geographies in 2013 -2016
- 1P Sales by geography in $m, average price, total units, customers, frequency
- Includes data insights mined from our Amazon best seller tracker series, benchmarking Amazon best sellers across geographies and months
- Detailed statistics about net sales, active customer accounts and prime subscriptions per country
- Forecasts for 1P sales, 3P sales and Amazon GMV
- Includes shopper insight, proprietary customer survey data
- Evaluation of business principles around international expansion, logistics roll out, inventory turn and tighter integration of key strategic principles into every business unit.
- Heavy recommendation focus, recommendations to FMCG and retailers over a ten year horizon
- Financials, KPIs and benchmarks including net sales, US and International sales per country, and product segment sales 2008-2014
- An outlook on Amazon's future towards domination

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.

KEY BENEFITS

- Learn about and copy the 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 such as ecosystem development, loyalty driver creation, the use of algorithms, advertising and prime
- 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 and retailers 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, find out how big Amazon will become over the next decade
- Find out about growth opportunities for and with Amazon and identify key threats to Amazon, Amazon white spaces and weaknesses and the risks associated with working with the pureplay
- Benchmark your performance against the best in class, find out how to future proof your business
- Gain key insights into one of the most active and innovative retail companies in the world
- Understand Amazon's mindset for success from its established successful businesses (Marketplace, Prime) bets for the future (drone and one-hour delivery), and even its failures (mobile wallet, Elements, Fire smartphone)
- Discover Amazon's activities both at home and abroad, especially the foreign markets it has pinpointed to be key to future growth

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Zoom in to read

SAMPLE PAGES

Amazon: Average annual spend 11 – 14e, USA, DE, Jap

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	FYE 2011	FYE 2012	FY 2013
USA (in US$m)			
Active customer accounts (in m)	26,705	34,813	
Average annual spend (in US$)	88.9	114.0	
	300.5	305.5	
Germany (in €m)			
Active customer accounts (in m)	5,198	6,7	
Average annual spend (in €)	24.1		
	216.0		
Japan (in Ym)			
Active customer accounts (in m)	524,041		
Average annual spend (in Y)	21.9		
	23,9		
UK (in £m)			
Active customer accounts (in m)			
Average annual spend (in £)			
France (in €m)			
Active customer account			
Average annual spen			
Other (in €m)			
Active custome			
Average ann			

August 2015: Stock record, Bezos cashes in, Amazon Fresh to the UK?

In August 2015, Amazon's CEO Jeff Bezos sold over 1 million shares totaling $532m (£343m), a record sale. This comes on the back of a profit in the second quarter of $92m (£59m), which sent stock valuations up by 17%. The buoyant state of shares also meant that Amazon has overtaken Walmart with a market capitalisation of $250bn (€161bn). Bezos still owns around 18% of the company he founded.

Amazon Fresh looks set to launch in the UK after the company leased a former Tesco distribution warehouse in Weybridge, Surrey for a decade. Located within the M25, the 300,000 sq ft warehouse is in a place to make delivering to London ideal. Amazon has also leased a warehouse in Bardon, Leicestershire. The UK will become the first overseas venture for the grocery delivery service and only the fourth branch of the business after Seattle, New York and California. Although Amazon refuse to say that Amazon Fresh is coming to the UK, numerous media reports are saying the service could be rolled out as early as next month.

Amazon Fresh's entry into the UK will only further congest an already very crowded market. Supermarkets will be concerned since they are still feeling the effects of the discounters and Amazon's entry will only heap more pressure on price. Fellow online retailer Ocado will also be nervous, especially as the grocer struggles to make profits.

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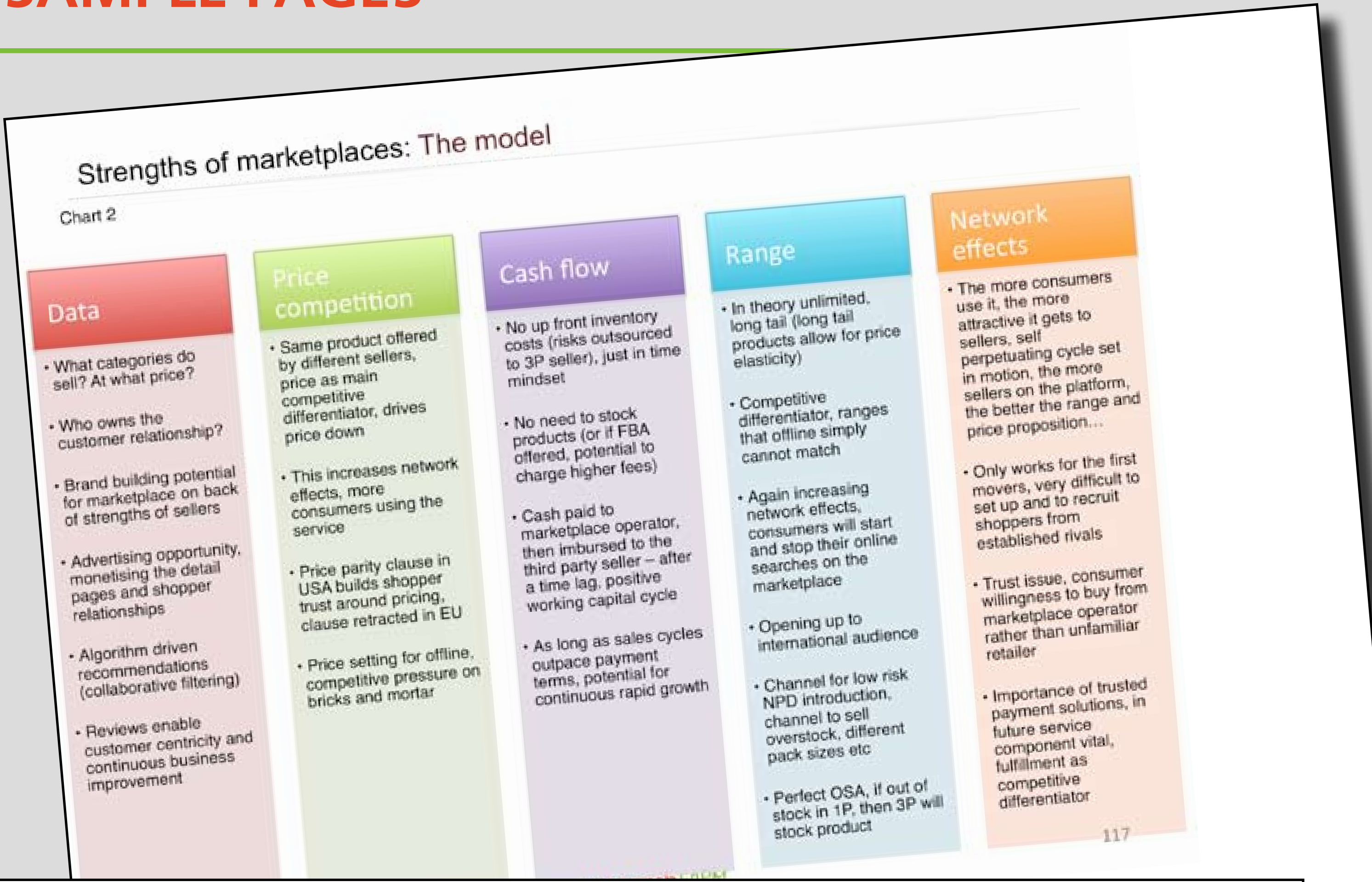

Strengths of marketplaces: The model

Chart 2

Data
- What categories do sell? At what price?
- Who owns the customer relationship?
- Brand building potential for marketplace on back of strengths of sellers
- Advertising opportunity, monetising the detail pages and shopper relationships
- Algorithm driven recommendations (collaborative filtering)
- Reviews enable customer centricity and continuous business improvement

Price competition
- Same product offered by different sellers, price as main competitive differentiator, drives price down
- This increases network effects, more consumers using the service
- Price parity clause in USA builds shopper trust around pricing, clause retracted in EU
- Price setting for offline, competitive pressure on bricks and mortar

Cash flow
- No up front inventory costs (risks outsourced to 3P seller), just in time mindset
- No need to stock products (or if FBA offered, potential to charge higher fees)
- Cash paid to marketplace operator, then imbursed to the third party seller – after a time lag, positive working capital cycle
- As long as sales cycles outpace payment terms, potential for continuous rapid growth

Range
- In theory unlimited, long tail (long tail products allow for price elasticity)
- Competitive differentiator, ranges that offline simply cannot match
- Again increasing network effects, consumers will start and stop their online searches on the marketplace
- Opening up to international audience
- Channel for low risk NPD introduction, channel to sell overstock, different pack sizes etc
- Perfect OSA, if out of stock in 1P, then 3P will stock product

Network effects
- The more consumers use it, the more attractive it gets to sellers, self perpetuating cycle set in motion, the more sellers on the platform, the better the range and price proposition…
- Only works for the first movers, very difficult to set up and to recruit shoppers from established rivals
- Trust issue, consumer willingness to buy from marketplace operator rather than unfamiliar retailer
- Importance of trusted payment solutions, in future service component vital, fulfillment as competitive differentiator

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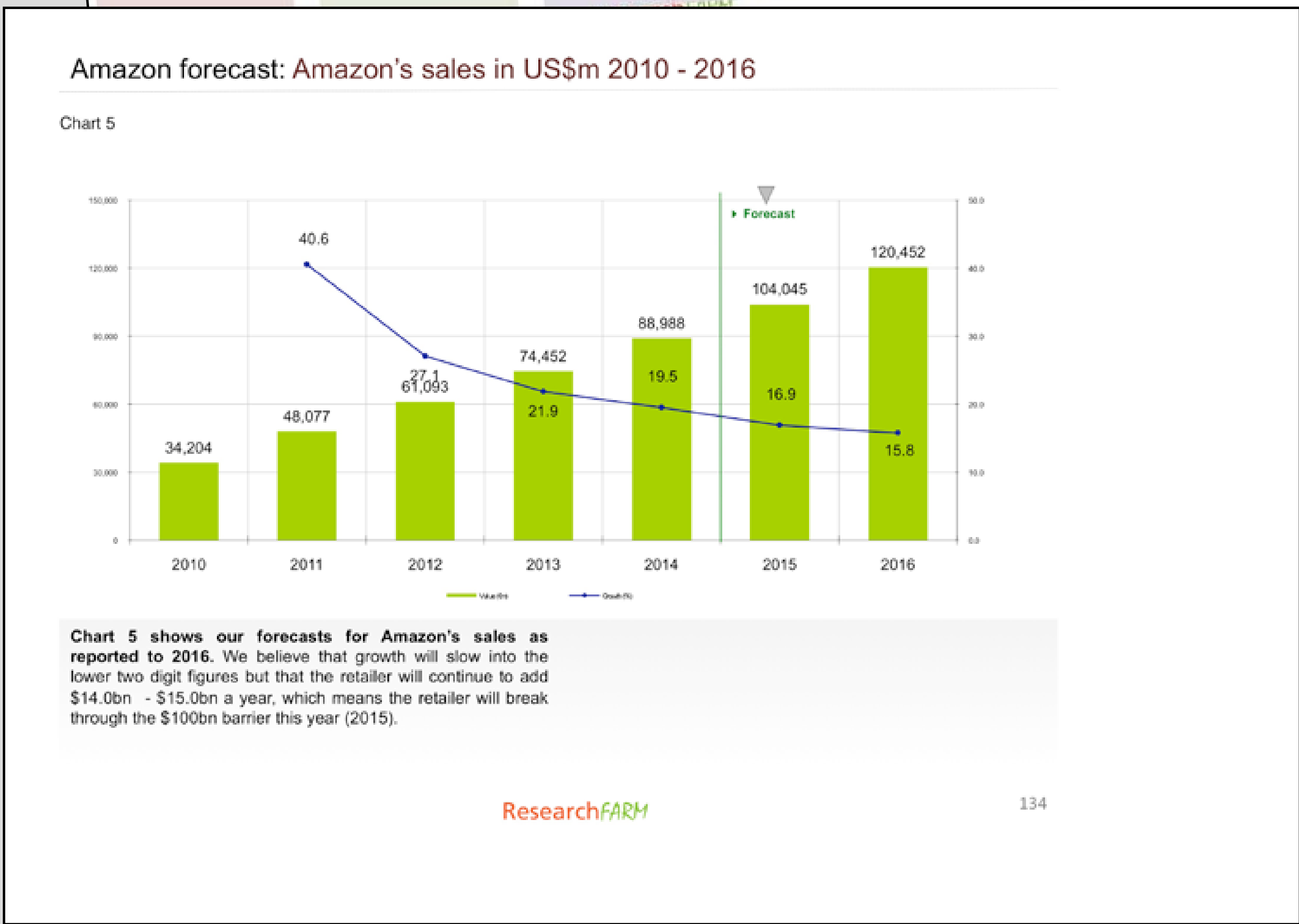

Amazon forecast: Amazon's sales in US$m 2010 - 2016

Chart 5

Chart 5 shows our forecasts for Amazon's sales as reported to 2016. We believe that growth will slow into the lower two digit figures but that the retailer will continue to add \$14.0bn - \$15.0bn a year, which means the retailer will break through the \$100bn barrier this year (2015).

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Marketing Manager - Bonifaz-Kohler

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