

The rise of Amazon

How it became a global conglomerate and what its future may hold

MarketLine Case Study

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1. Overview

1.1. Catalyst

On February 2, 2021 it was announced that Amazon founder Jeff Bezos would be stepping down as CEO, after almost 30 transformative years at the company. The following report will explore how Amazon went from a small online book retailer to an e-commerce giant, how it diversified into an empire and became one of the world's most valuable brands, and where future growth opportunities lie under its new leadership.

1.2. Summary

Amazon's successful e-commerce platform has been the key driver of its impressive growth historically and has given it the financial backing to diversify its business. While the company's astronomical growth was undoubtedly bolstered by the e-commerce boom, it has taken a number of strategic decisions since its inception which have made it stand out amongst the crowd, and truly cement itself as the leading global e-commerce giant. Despite this, it has faced challenges, most notably rising shipping costs, which have come to impact its margins.

It is clear that Amazon's success in the field of e-commerce is what placed it on the map. However, over the years it has quietly entered and come to dominate a number of other industries and truly diversified its revenue streams. Its entry into thriving industries such as healthcare, subscription services and its bold decision to delve into physical retail have helped the company to become a global empire. It has also allowed the company to compete directly with technology giants such as Facebook, Apple, Google and Netflix and cement itself as a formidable competitor.

Over the years Amazon has evolved from an online book store, to an e-commerce giant and finally into a global conglomerate with business interests spanning an array of industries. One of the headlines from the Amazon Q4 financial results was that Andy Jassy, the founder and current leader at AWS, will replace Jeff Bezos as chief executive officer during Q3 of 2021, raising questions as to what the future holds for Amazon. The company has a number of ambitious plans which could see it go through yet another period of transformation. Amazon Web Services has become a key growth driver for the company and its value is set to further increase as demand for cloud computing continues to grow. The Indian online retail market also offers future growth prospects, but the company's future there is hanging in the balance due to a bitter dispute.

Table of Contents

1. OVERVIEW	1
1.1. Catalyst	1
1.2. Summary	1
2. AMAZON HAS BUILT STRONG FOUNDATIONS IN E-COMMERCE	1
2.1. Amazon has perfected the online retail model	1
2.2. The COVID-19 pandemic has boosted online shopping, Amazon has been a major beneficiary	2
2.2.1. Despite booming sales, high operating costs have had an impact on margins	3
3. AMAZON HAS DIVERSIFIED ITS REVENUE STREAMS TO BECOME A GLOBAL CONGLOMERATE	4
3.1. Subscription services represent a growing proportion of revenues	4
3.1.1. Prime kick started Amazon's presence in subscription services	5
3.1.2. Prime Video has cashed in on the success of video-on-demand services	5
3.1.3. Amazon Music is a dark horse in the online music streaming market	5
3.2. Purchase of Whole Foods marked diversification into brick and mortar retail	5
3.3. Amazon has embarked on a course into the healthcare industry	6
4. WHAT DOES THE FUTURE HOLD FOR AMAZON?	8
4.1. Amazon Web Services will see increased demand	8
4.2. Cloud gaming is in its infancy but has potential in the long term	9
4.3. Amazon has the potential to become a major player in the advertising sector	10
4.4. India holds great potential to become a major market	11
4.4.1. Amazon's ambitions are being threatened by a bitter dispute	12
4.5. With great success comes great responsibility	12
5. APPENDIX	14
5.1. Abbreviations and acronyms	14
5.2. Sources	14
5.3. Further reading	14

6.	ASK THE ANALYST	14
7.	ABOUT MARKETLINE	14

List of Figures

Figure 1: Amazon and main retail competitors sales growth (%)	1
Figure 2: Top 10 destinations where UK consumers shopped for Christmas gifts (%)	3
Figure 3: Amazon revenue by business segment (2019)	4
Figure 4: Amazon acquired Whole Foods Market in 2017	6
Figure 5: PillPack's USP is its simple, user friendly packaging	7
Figure 6: GlobalData Competitive Index: AWS	8
Figure 7: Global cloud computing industry value forecast: \$ billion, 2019–24	9
Figure 8: Amazon Luna has launched	10
Figure 9: India retail market growth by channel (%)	11
Figure 10: Amazon is investing heavily in renewable energy projects	13

2. Amazon has built strong foundations in e-commerce

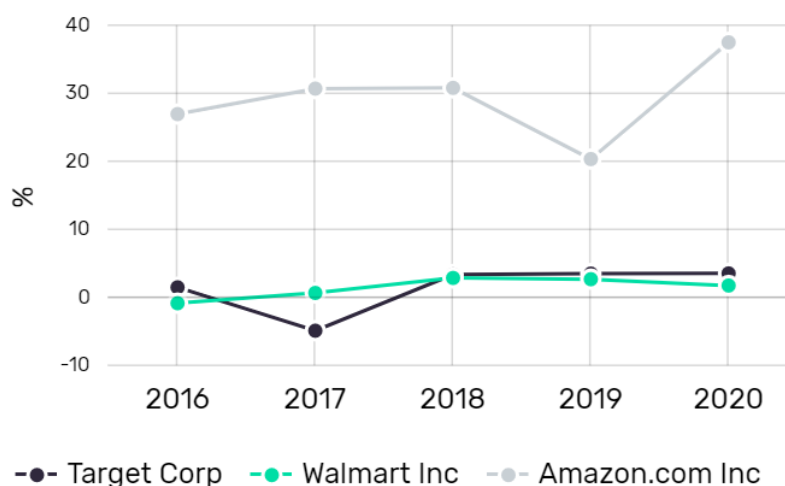
Amazon's successful e-commerce platform has been the key driver of its impressive growth historically and has given it the financial backing to diversify its business. While the company's astronomical growth was undoubtedly bolstered by the e-commerce boom, it has taken a number of strategic decisions since its inception which have made it stand out amongst the crowd, and truly cement itself as the leading global e-commerce giant. Despite this, it has faced challenges, most notably rising shipping costs, which have come to impact its margins.

2.1. Amazon has perfected the online retail model

In 2018, it became the world's second-ever public company to be valued at \$1tn, after Apple, and today it has the third-highest market valuation in US, after Apple and Microsoft. In addition to its growth alongside the online retail boom, the company has made other crucial strategic decisions which have helped it become a market leader.

A key milestone in Amazon's success story happened in November 2000, when the company launched Amazon Marketplace, an e-commerce platform that enables third-party sellers to sell new or used products on a fixed-price online marketplace alongside Amazon's regular offerings. Until this point, Amazon was simply an online store and the change in concept allowed the company to substantially widen its product offerings. Using Amazon Marketplace, third-party sellers gain access to Amazon's customer base, and Amazon expands the offerings on its site without the company having to invest in additional inventory. Amazon charges its third-party merchants a referral fee for each sale which is a percentage of the sales price. Additionally, sellers using FBA must pay additional fees which include a pick, pack and weight charge. According to its 2019 annual report, third-party seller services segment (which includes commissions and any related fulfillment and shipping fees) generated net sales of \$53.7bn, representing a significant proportion of its total net sales of \$280.5bn. Amazon's Prime Day 2020, in October, saw third-party sellers worldwide surpass \$3.5bn in sales—a year-on-year increase of nearly 60%, a growth rate well in excess of that of Amazon's own retail sales.

Figure 1: Amazon and main retail competitors sales growth (%)



Source: MarketLine

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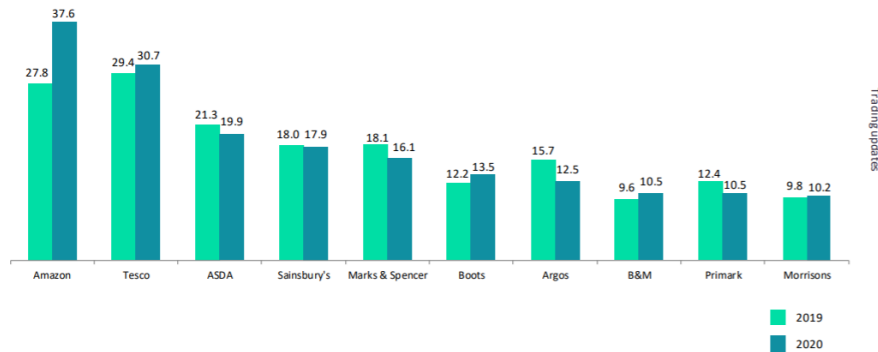
Another key demand among customers is fast delivery which is as cheap and convenient as possible. E-commerce specialists that have managed to achieve this generally do better in the market place and the obvious leader is Amazon, which has been focused on getting this aspect right and it has been willing to invest heavily in creating its own networks to supplement normal carriers and control the quality of delivery. At the time of writing, Amazon operates more than 175 fulfilment centers around the world in more than 150 million square feet of space, the majority of which is located across North America and Europe. Additionally, the company operates sortation centers, where packages are distributed based on location and delivery speed, specialty centers designed for specific item categories or for seasonal use, and receive centers for popular items distributed throughout the network. It's extensive logistics network has made it a market leader in fast delivery. The focus on next day delivery grows stronger every year and retailers have to consider all kinds of options to keep up with customer demands.

2.2. The COVID-19 pandemic has boosted online shopping, Amazon has been a major beneficiary

While the COVID-19 pandemic has wreaked havoc on the majority of markets and industries globally, the online retail sector has been a major beneficiary, as demand has skyrocketed due to stay at home policies and lockdown measures. As regular physical stores have been placed under strict guidelines from the government for the majority of 2020, more consumers have turned to Amazon for essential and especially non-essential purchases. Amazon has been able to leverage its effective online retail model to cater to the growing demand for fast and easy delivery options. Overall, its range of products, quick delivery and benefits of prime have meant that it has been able to offer convenience and stability in uncertain time, and has thus appealed to the vast majority of consumers. The increase in demand has been particularly strong in the US and UK markets, which have seen impressive sales growth since the start of the pandemic in March 2020.

Amazon saw its UK sales rise by 51% in 2020 to \$26.48bn amid a boom in online shopping during the COVID-19 pandemic, with brick-and-mortar stores forced to close for much of the year. The figure compared to UK sales of \$17.52bn in 2019. The Times has also reported that the online retail giant now accounts for around £1 of every £20 spent in British retail, and made up 17% of all online transactions last year. Amazon also performed well at Christmas, with 37.6% of Christmas gift shoppers making a purchase with the retailer this year, up 9.8ppts on last year, rendering it the top retailer for the category. With 62.1% of consumers using online channels to purchase gifts this year, Amazon was in a prime position to capture demand from shoppers who were unable to visit the non-essential, specialist retailers which were closed in the England November lockdown leading up to Christmas. The chart below shows where consumers shop for gifts, Amazon was not only the top destination for gift shopping for Christmas 2020, but it also experienced the largest percentage point change from 2019 to 2020 amongst the top 10 retailers.

Figure 2: Top 10 destinations where UK consumers shopped for Christmas gifts (%)



Source: GlobalData Occasion series – Christmas 2020.

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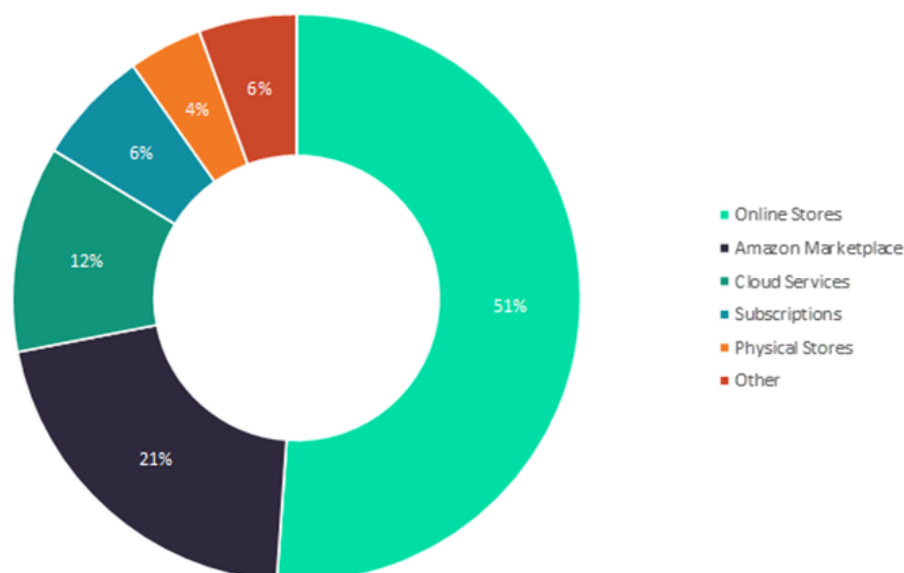
2.2.1. Despite booming sales, high operating costs have had an impact on margins

For Amazon, one of its key strategies is keeping operational costs low to maximize net income. Amazon is trying to achieve this difficult task by reducing its logistics costs, one of the highest incurring costs to the group, although it has struggled. While Amazon's revenues have benefitted greatly from the surge in e-commerce, shipping costs have also increased. Amazon's shipping costs increased 57% YoY in Q3 2020 to reach \$15bn. Shipping costs are actually growing faster than online sales (up 38% YoY) in the same period and is eating into the profit the company is able to make from its retail operations. Expanding fulfilment centers to new geographies, and acquisitions and partnerships with delivery, logistics and technology startups will help Amazon achieve this in the long term though at present this remains an area of concern.

3. Amazon has diversified its revenue streams to become a global conglomerate

It is clear that Amazon's success in the field of e-commerce is what placed it on the map. However, over the years it has quietly entered and come to dominate a number of other industries and truly diversified its revenue streams. Its entry into thriving industries such as healthcare, subscription services and its bold decision to delve into physical retail have helped the company to become a global empire. It has also allowed the company to compete directly with technology giants such as Facebook, Apple, Google and Netflix and cement itself as a formidable competitor.

Figure 3: Amazon revenue by business segment (2019)



Source: MarketLine

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3.1. Subscription services represent a growing proportion of revenues

While Amazon is primarily recognized for its success as an online retailer, the revenue it garners from Amazon Prime and its various other membership offerings add up to a substantial proportion of its total revenues. According to the company's 2019 annual report, the Subscription Services segment was the fourth largest contributor to its total revenues, totaling \$19.21bn and representing 6.8% of its total yearly earnings. This was a notable increase when compared to the \$14.16bn generated in 2018 and \$9.7bn in 2017, highlighting the growing relevance of the segment. The subscription segment has been growing at close to 30% YoY for the past few quarters, with subscriber uptake being boosted by the pandemic. Amazon's Subscription Services revenues mainly include annual and monthly fees associated with its Amazon Prime membership and also includes some revenues from audiobook, e-book, digital video, digital music and other non-AWS subscription services.

3.1.1. Prime kick started Amazon's presence in subscription services

Amazon Prime is the company's flagship delivery service and is widely accepted as being an integral aspect of the company's success, forming the base of its subscription segment and fostering a rare culture of loyalty among customers, which is unheard of in the retail landscape. While Prime was founded in 2005, the subscription service has continued to evolve since its inception and it wasn't until 2014 that its popularity began to notably skyrocket. Since then, the service has provided Amazon with a significant revenue stream and helped it achieve strong financial growth. For a long time, Amazon refrained from sharing details on Prime and its subscriber numbers. However, for the first time in 2018 Jeff Bezos revealed that the company had 100 million Prime subscribers worldwide and just two years later in January 2020, it reported more than 150 million subscribers spread across 19 countries worldwide. It is the second-largest paid membership program in the world. In the US, which is home to an estimated 112 million Prime members, a standard Amazon Prime membership costs \$12.99 monthly, or \$119 annually, which is a low price considering the bundle of services which are included. Prime members receive discounts across the company's online retail platforms, brick-and-mortar stores, streaming services and other offerings. Amazon Prime also includes benefits such as free shipping and same-day delivery.

3.1.2. Prime Video has cashed in on the success of video-on-demand services

While Amazon Video was launched in 2006, the major advancement was in 2010 when Amazon Studios was created. As a television and film production distributor for Amazon Video, the 'Studios' has been able to successfully backwards integrate into the production of films and television shows, whilst simultaneously providing a unique selling point for their subscription model, with shows such as *The Grand Tour* and a *Lord of the Rings* TV series being offered exclusively on its streaming platform. In order to compete against Netflix, Amazon has ramped up its studio production and has released a number of critically acclaimed originals including *Bosch*, *Sneaky Pete* and *The Man in the High Castle*. Amazon became a Premier League partner for the first time ahead of the 2019/20 season, a move which was considered a massive addition to the platform. Amazon paid the English Premier League a reported £90m for its three-year deal, in which 20 games will be split over two rounds of mid-winter fixtures. Amazon Video is an interesting strategic business move; unlike Netflix it is not a profit-orientated streaming platform, rather a method used to lure in potential customers to the Prime subscription model. Subsequently, these customers transition into the dominant retail market Amazon so proudly boasts, leading to increased profits.

3.1.3. Amazon Music is a dark horse in the online music streaming market

Another lucrative area which Amazon expanded its subscription service into is the online music streaming market, which has experienced exponential growth in recent years. According to in-house research, the global online music streaming market had total revenues of \$11.7bn in 2019, representing a compound annual growth rate (CAGR) of 40.6% between 2015 and 2019. Market growth has been driven by consumer demand for unlimited access to large catalogues of music on demand, which is now more desirable than physical music units and digital downloads. Streaming offers more flexibility and greater access than traditional methods of listening to music which has caused consumers to change the way they listen to music. While Amazon Music isn't as well-known as its competitors Spotify and Apple Music, the service has still grown at a strong rate and captured a significant number of users. In January 2020, Amazon.com Inc. said that its music streaming service had over 55 million customers globally, which at the time was edging close to Apple Music (around 68 million), albeit far behind Swedish rival Spotify (155 million). Amazon Music has, like the company's other subscription services, benefited from its inclusion in the Prime membership, which has bolstered its popularity.

3.2. Purchase of Whole Foods marked diversification into brick and mortar retail

On August 28, 2017, Amazon took a huge stride into bricks and mortar retail through its \$13.7bn acquisition of the upmarket supermarket chain Whole Foods Market, which was a key moment in its diversification into physical retail, adding some 400

physical stores to Amazon's e-commerce assets. Prior to the deal, Amazon had been eyeing its options to move into the high-street for some time, seeing this as an opportunity to boost its offering outside of the online retail arena. However, the deal came as a shock to many, due to the issues facing many high street retailers. In late April 2017, Whole Foods reported their sixth consecutive quarter of declining sales, and announced that the company would be closing nine stores. The company's loss of revenue was attributed to foot traffic being down and other supermarkets offering a similar experience for a lower cost. Despite its waning performance, Amazon identified Whole Foods as an asset which would not only enable it to enter physical retail but also amp up its presence in the grocery services sector.

While known for being an organic food grocery store, Whole Foods has gained the reputation for being expensive and costing a "whole paycheck". The main issue was that while Whole Foods was a trail blazer in the organic foods market, many other supermarkets have now followed suit. These stores not only offer alternatives which add to the consumer convenience but also offer cheaper options. Whole Foods has clearly been in trouble with dropping profits. However, Amazon has been able to offer economies of scale which has resulted in cheaper prices; the branding to attract in more customers and also the logistical expertise to bring in the possibility of online delivery. This has since manifested and customers can now use Prime Now to receive grocery orders from the company in as little as two hours, between 8 am and 10 pm, depending on the market. This synergy has proven even more popular amid the pandemic. The surge in shoppers stocking up and panic buying has been helpful for Whole Foods. Its reputation for wellness and health has also been beneficial, as it is highly trusted by consumers, something that has become increasingly important in a time of uncertainty.

Figure 4: Amazon acquired Whole Foods Market in 2017



Source: Whole Foods

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3.3. Amazon has embarked on a course into the healthcare industry

Over the past few years, Amazon has quickly asserted itself as a disrupter in the healthcare industry, after investing heavily in innovation and acquisitions. On June 28, 2018 Amazon announced that it was acquiring PillPack for an undisclosed sum (later revealed as \$753m), snapping up a company that delivers medication, much to the behest of pharmacy benefit managers (PBMs), which control up to 85% of the US market. PillPack's main USP is that it produces user-friendly packaging to support those with chronic conditions who need to take multiple medications daily. In an interim step, Amazon rebranded PillPack in November 2019 as "PillPack, by Amazon Pharmacy". Since then, Amazon has invested in improving PillPack's offering. To make it easier for members to fill and manage multiple prescriptions, Horizon Healthcare Services, Inc. (Horizon), New Jersey's oldest

and largest health insurer, and its pharmacy benefit manager Prime Therapeutics LLC, now offer its members an integrated pharmacy experience with PillPack by Amazon Pharmacy. Horizon now provides simplified PillPack sign up, choice of user-friendly multi-dose packages or traditional medicine bottles and estimated out-of-pocket cost information to help members make informed choices.

Amazon Pharmacy's business is based on online sales, offering free, two-day home delivery of prescriptions to Amazon Prime subscribers and savings of up to 80% off generic and 40% off branded medications when not paying using insurance. Amazon Pharmacy requires customers to establish a secure pharmacy profile to manage insurance and medical information. At the time of its formation, Amazon Pharmacy's operation was limited to the US. However, Amazon has since filed to trademark "Amazon Pharmacy" in a large number of markets including Canada, the UK and Australia, signaling a potential move into selling prescription drugs outside of its domestic market.

Through its Alexa service and the wearables that it runs on, Amazon has the potential to monitor health indicators and automatically push treatments remotely, the same way it monitors consumer preferences and promotes products. Amazon's Halo, its first own-brand health-monitoring wearable, launched in early September 2020. In an interview with the BBC, Scott Galloway, author of *Post Corona: From Crisis to Opportunity* stated that "With their new wearable Amazon Halo, the company can build a 3D image of their consumers and they can then combine this with the foods you eat through Whole Foods, data from Amazon Prime and Alexa, and information such as your post code, relationship status, demographic data." One of Halo's more unusual features is its Tone option. This opt-in feature uses machine learning to "analyze energy and positivity" in a user's voice, designed to help them understand how they may come across to others by capturing short samples of speech throughout the day. With the world's largest company behind it, the newest addition to the Amazon ecosystem may be able to establish itself in the market, but it remains to be seen how it will compare to the likes of Fitbit and Apple.

Figure 5: PillPack's USP is its simple, user friendly packaging



Source: PillPack

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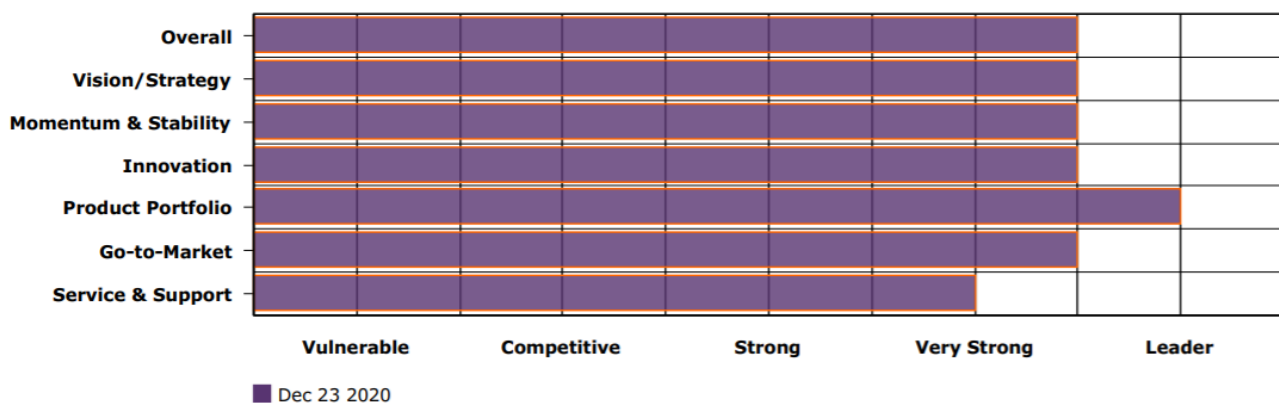
4. What does the future hold for Amazon?

Over the years Amazon has evolved from an online book store, to an e-commerce giant and finally into a global conglomerate with business interests spanning an array of industries. One of the headlines from the Amazon Q4 financial results was that Andy Jassy, the founder and current leader at AWS, will replace Jeff Bezos as chief executive officer during Q3 of 2021, raising questions as to what the future holds for Amazon. The company has a number of ambitious plans which could see it go through another period of transformation. Amazon Web Services has become a key growth driver for the company and its value is set to further increase as demand for cloud computing continues to grow. The Indian online retail market also offers future growth prospects but the company's future there is hanging in the balance due to a bitter dispute.

4.1. Amazon Web Services will see increased demand

As the leading cloud computing platform, Amazon Web Services (AWS) has become a primary profit driver for Amazon in recent years, with revenue climbing to \$12.7bn in the fourth quarter of 2020, from \$9.95bn a year earlier. AWS revenue now represents 10% of Amazon's total sales. According to a recent Cloud Security Alliance (CSA) report, Amazon Web Services is the most popular public cloud infrastructure platform, comprising 41.5% of application workloads in the public cloud. While Microsoft Azure is gradually catching up to Amazon, it, along with Google Cloud Platform, lags behind AWS in terms of market penetration and adoption. AWS can be broken into three main products: Elastic Compute Cloud (EC2), Amazon's virtual machine service, Glacier, a low-cost cloud storage service, and S3, Amazon's storage system. AWS has effectively laid the foundation for the cloud market with its dynamic and cost-effective on-demand IT services which have a broad appeal, allowing it to become a market leader. Notable AWS enterprise clients include NASA, Netflix, Shell, and a number of agencies and organizations in the U.S. federal government, including the Department of Defense.

Figure 6: GlobalData Competitive Index: AWS



Source: GlobalData

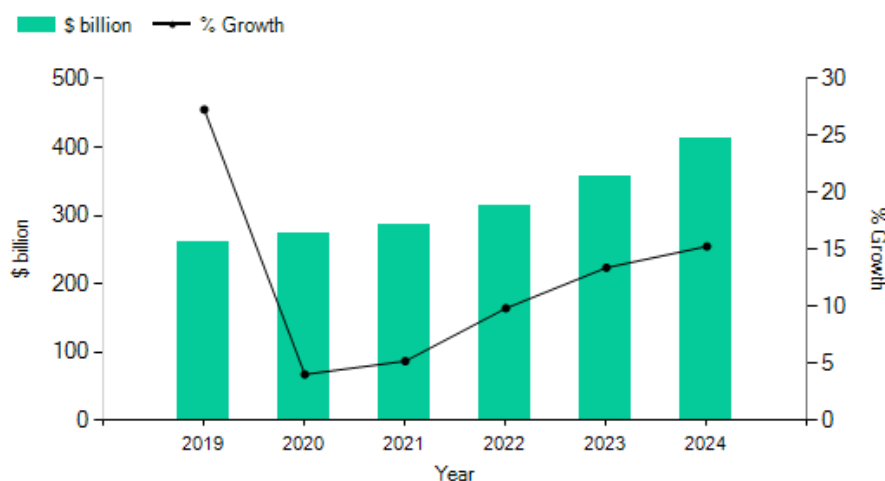
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One of the headlines from the Amazon Q4 financial results was that Andy Jassy, the founder and current leader at AWS, will replace Jeff Bezos as chief executive officer during Q3 of 2021. The decision to appoint Jassy is a further indication that Amazon sees AWS as a crucial aspect of the business and that it will play an important role in its future growth plans. As evidence of the cloud's growing importance, GlobalData reported that cybersecurity and cloud computing are the two leading tools perceived by enterprises as improving efficiency. About half of business executives believe those technologies will deliver the

most significant efficiency gains in their existing business operations over the next three years (source: GlobalData Emerging Technology Trends Survey, October 2020) and Amazon is in prime position to take advantage of this.

AWS has an impressive portfolio of AI, analytics, and data management tools and solutions, as well as a leading go-to market strategy, which have created enviable momentum. Amazon's analytics technology has been deployed by multiple organizations to help with COVID-19 related challenges. Hospital networks, pharmaceutical companies, and research labs are all using AWS to care for patients, explore treatments, and mitigate the impact of COVID-19 in many other ways. Academic institutions around the world are transitioning from in-person to virtual classrooms and are running on AWS to help ensure continuity of learning and governments are leveraging AWS as a secure platform to build out new capabilities in their efforts to combat the pandemic. In the UK, AWS provides the cloud computing infrastructure for a project that analyzes hospital occupancy levels, emergency room capacity, and patient wait times to help the country's National Health Service decide where best to allocate resources. In Canada, OTN—one of the world's largest virtual care networks—is scaling its AWS-powered video service to accommodate a 4,000% spike in demand to support citizens as the pandemic continues. In Brazil, AWS will provide the Sao Paulo State Government with cloud computing infrastructure to guarantee online classes to 1 million students in public schools across the state. The acceleration in cloud computing adoption spurred by the pandemic, combined with Amazon's product offering will place AWS in good stead to take advantage of its already strong position in the market.

Figure 7: Global cloud computing industry value forecast: \$ billion, 2019–24



Source: MarketLine

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4.2. Cloud gaming is in its infancy but has potential in the long term

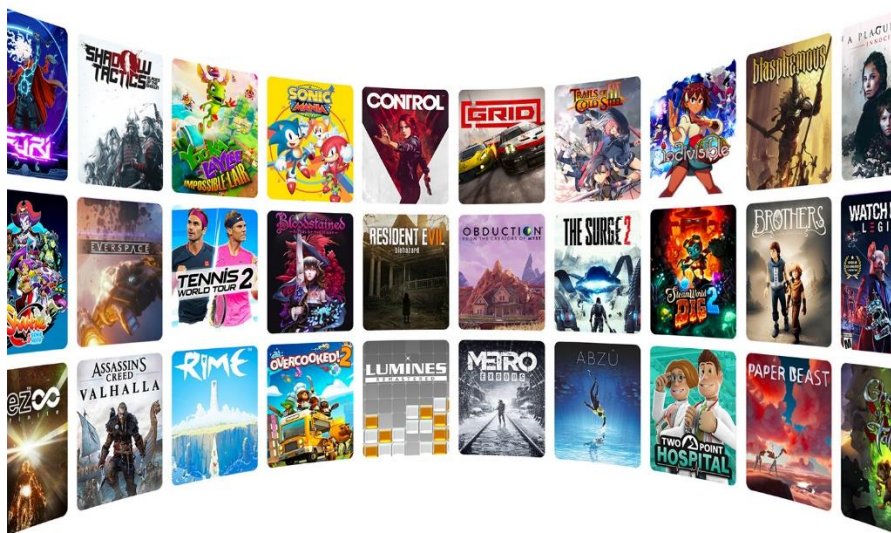
Worth \$1bn in 2020, the global cloud gaming market is expected to become a \$30bn industry by 2030, expanding at a compound annual growth rate (CAGR) of 40% over the 10-year period, according to GlobalData estimates. By revenue, cloud gaming accounted for less than 1% of the video games industry in 2020, but it has the potential to disrupt how games are distributed, consumed, and monetized in the coming years and as a result has attracted the attention of a number of tech giants. All cloud gaming providers need access to a leading cloud services platform to succeed. Amazon, as a prominent cloud services provider through AWS, has the ability to add thousands of virtual servers and petabytes of storage within minutes, allowing it to respond to high levels of traffic. Its presence in this field can therefore aid cloud gaming service availability and the velocity at which it can release new features, content, and interfaces, which makes its entry into the market a sensible one.

After acknowledging its advantageous position and the potential of the market, Amazon made its first stride into the market and in October 2020, the company's cloud gaming platform, Luna, went live to invited subscribers in the US. Luna featured 100

games at launch alongside an Ubisoft channel that included popular games such as Assassins Creed Valhalla, Far Cry 6, and Immortals Fenix Rising. Luna is currently available on a \$5.99 monthly subscription plan, making it cheaper than rival services like Google Stadia and Sony PS Now (both \$9.99 a month at the time of writing), and Xbox Cloud Gaming (\$14.99 a month). Another factor which differentiates Amazon's Luna is its integration with video live streaming service Twitch, which it acquired for \$970m in 2014. Players can see Twitch streams for games in the service and can instantly begin playing Luna games from Twitch. As of February 2020, Twitch had 3 million broadcasters monthly and 15 million daily active users, with 1.4 million average concurrent users and has proven to be a solid asset for Amazon since it was acquired. Amazon also launched the Luna controller, which is Alexa-enabled and connects directly to the cloud. Amazon states that the multiple-antenna design prioritizes uninterrupted WiFi for lower-latency gaming and layers can switch between screens (such as Fire TV to mobile phone) without additional pairing or configuration changes.

Amazon is now in direct competition with Microsoft's xCloud and Google Stadia in an increasingly crowded gaming market but has come into the market with some key differentiators, primarily its integration of Twitch and Luna controller. As competition heats up, keeping content relevant and affordable for players will be the key to success, if Amazon can achieve this the segment could be highly lucrative in the future.

Figure 8: Amazon Luna has launched



Source: Amazon Luna

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4.3. Amazon has the potential to become a major player in the advertising sector

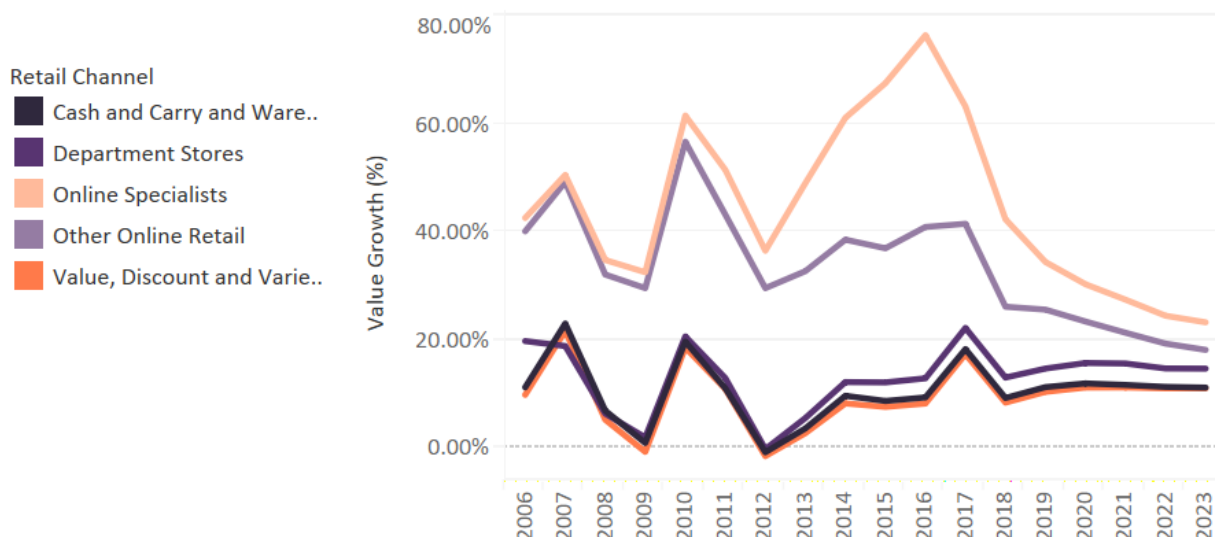
Another rapidly growing revenue stream for Amazon is through advertising, which could allow it compete with ad behemoths Google and Facebook in the future. While Amazon doesn't break down the performance of its advertising business in absolute terms, it does make up the majority of its "other" category, which generated \$7.9bn in revenue in the fourth quarter of 2020, an increase of 64% from a year ago. Amazon CFO Brian Olsavsky said that growth in the segment was primarily driven by a resurgence in ad spending and Prime Day and that Amazon has seen success with a "deep learning model to show more relevant sponsored products." Evidence also suggests that big brands are beginning to notice the potential of Amazon as an advertising platform. A survey of 1,000 major brands conducted by Feedvisor, an "AI-first" optimization and intelligence platform, suggested that the number advertising on Amazon has risen to 73% in 2020, up from 57% in 2019.

Advertising revenues at Amazon, despite growing, represent a tiny proportion of its total turnover, especially when compared to Google or Facebook's 84% and 98.5% respectively, yet the potential for future growth remains huge. Amazon's potential lies with the fact that it has already built an enormously successful e-commerce platform, and is now creating a system so that the participants are able to pay to highlight their products. For instance, the company accounts for approximately 40% of all e-commerce in the US market and as advertising on the site is attached to the place where the sale takes place, it offers an attractive prospect to advertisers. With over 300 million worldwide active customer accounts, Amazon has a deep understanding of how shoppers engage with products and brands as they discover, research and purchase online. The data that Amazon holds on its huge customer base is extremely valuable, something which it appears advertisers are taking note of based on the segments strong growth. As the online retail sector continues to grow amid the pandemic and beyond, the demand for advertising will follow suit, if Amazon invests in promoting this area of its business further it has the potential to become a major player and challenge the current duopoly.

4.4. India holds great potential to become a major market

At present, India is a small contributor to Amazon's total sales but is set to become an important growth driver for the company in the coming years. While e-commerce has grown significantly in India in recent years, there is a huge potential for penetration given that online sales accounted for a mere 1.6% of total retail sales in India, compared to 15% in China and around 14% globally. The Indian online retail sector generated total revenues of \$21.8bn in 2018, representing a compound annual growth rate (CAGR) of 66.1% between 2014 and 2018. In comparison, the South Korean and Chinese sectors will grow with CAGRs of 17.8% and 27.4% respectively, over the same period. According to in-house research, in 2023, the Indian online retail sector is forecast to have a value of \$82.1bn, an increase of 276.6% since 2018. The penetration of online shopping in India, in terms of internet users, is still low, thus there is ample room for growth. Pew Research Center placed Indian smartphone ownership amongst adults at 24% significantly below the median of developing countries which was 45%. With India's population surpassing 1.3 billion there is still vast opportunity for technology development. Additionally, the number of internet users is forecast to grow as wireless networks provide services in places fixed-line has been unable to reach.

Figure 9: India retail market growth by channel (%)



Source: MarketLine

© MarketLine

In 2017 Amit Agarwal, head of Amazon in India stated that “Our ambition in India is to become everything for everyone”, demonstrating the company’s intent. Just two years later, in September 2019, the company opened its largest campus outside the United States in Hyderabad. The 9.5-acre campus took three years to build and houses more than 15,000 employees, which reaffirmed India as a key market as well as talent hub for the company. Recognizing the potential of the market, Amazon has announced investments of at least \$6 billion in India, including a \$1bn pledge in January 2020 to help digitize traders and micro, small, and medium-sized businesses (MSMBs), with the goal of bringing more than 10 million MSMBs online by 2025. Amazon expects this investment to enable \$10bn in cumulative Indian exports by 2025.

4.4.1. Amazon’s ambitions are being threatened by a bitter dispute

Despite its ambitions in the country, Amazon does face challenges, most notably its ongoing spat with Future Group and Reliance Retail. In January 2020, Amazon partnered with India’s Future Retail Ltd, as both companies sought to expand their reach by leveraging each other’s networks. The partnership allowed Future Group to access Amazon’s online platform, and in turn meant that this would help deepen the US-based e-commerce firm’s presence in the Indian market. However, since then things have turned bitter between the two conglomerates; Amazon is now locked in a bitter legal dispute with Future Group, which in August 2020 sold its retail assets to Mukesh Ambani-led Reliance Industries Ltd. According to the US e-commerce giant, this deal breaches agreements made in 2019 by Future. This claim has been refuted by Future Retail, with the company stating that it was looking for expansion opportunities as the coronavirus pandemic has adversely affected the market and that it was not in breach of any agreements made with Amazon. The Indian Watchdog Competition Commission (CCI) announced in November 2020 it had approved a \$3.4bn deal between the nation’s two largest retail giants, Future Group and Reliance Retail; posing a huge threat to Amazon and the firms have been at loggerheads ever since. On February 3, 2021 the Delhi High Court had ruled that the \$3.3bn sale of Future Retail should be put on hold in response to Amazon’s latest objections. Then, on February 8 the courts overturned an order that would have prevented the deal, leaving Amazon on the back foot once again.

If Amazon wishes to establish its position in the lucrative Indian market as a leading player, the company must continue with growth strategies such as partnerships with established domestic players and extend its reach further in a bid to generate revenues. The company will also have to resolve its legal dispute with India’s leading retailers Future Retail and Reliance as a failure to do so could lead to the US e-commerce giant being boycotted by the Indian retail market.

4.5. With great success comes great responsibility

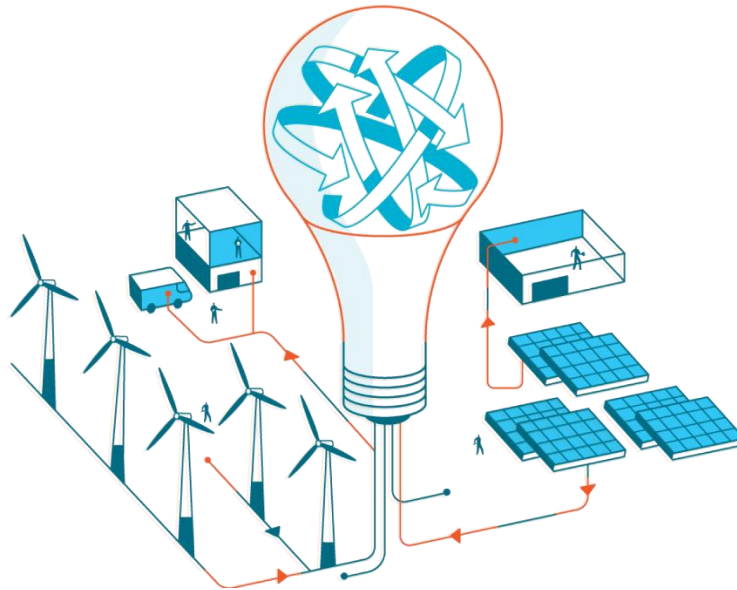
As Amazon grapples with increased scrutiny regarding its impact on the planet, its future image will become increasingly dependent on its commitment to sustainability. In September 2019, after years of mounting pressure, Amazon finally released a report detailing the company’s impact on the environment. In 2018 it emitted 44.4 million metric tons of carbon dioxide equivalents, which is roughly equal to the annual emissions of Norway. The following year, this figure increased to 51 million metric tons in 2019, although its carbon emission intensity (emissions/sales) was down 5%. A 2019 investigation from Greenpeace found that in Virginia, where Amazon houses the core of its cloud infrastructure, the firm’s data centres were powered by only 12% renewable energy. The increase in emissions reflects the diversification of the company, with its vast data centres, global logistics network comprising of trucks, aircraft and ships and physical retail presence all being major contributors to its impact on the environment.

In response to its criticism regarding its environmental impact, Amazon has ramped up investment in a bid to become a more sustainable business. In 2018, the company co-founded The Climate Pledge with Christiana Figueres, the UN’s former climate change chief and founder of Global Optimism, and became the first signatory to the pledge. The pledge commits Amazon to meet the goals of the Paris Agreement 10 years early and be net zero carbon by 2040. Amazon faces significant challenges in achieving this goal because it does not only move data around but also has extensive physical infrastructure and delivers more than 10 billion items worldwide a year.

In December 2020, Amazon became the world’s largest corporate purchaser of renewable energy, taking another step in its journey to be net-zero carbon by 2040. The company is investing in the construction of 26 new utility-scale wind and solar

projects in Australia, France, Germany, Italy, South Africa, Sweden, the UK, and the US, bringing Amazon's total number of renewable energy projects to 127. These investments aim to supply its operations with more than 18,000 gigawatt hours (GWh) of renewable energy annually, with hopes of helping put the company on a path to achieve 100% renewable energy by 2025, five years ahead of the initial 2030 target. Whether Amazon will be able to achieve these ambitious targets remains to be seen, with many analysts casting doubts on its ability to do so.

Figure 10: Amazon is investing heavily in renewable energy projects



Source: Amazon

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5. Appendix

5.1. Abbreviations and acronyms

AWS – Amazon Web Services

EC2 – Elastic Compute Cloud

USP – Unique Selling Proposition

5.2. Sources

Amazon 2019 Annual Report

CNBC

BBC News

Cloud Security Alliance

5.3. Further reading

MarketLine Industry Profile - Global Online Retail

MarketLine Thematic Analysis - Amazon, Apple, Facebook & Google: Too big to fail, too big to regulate

MarketLine Analyst Insight - Amazon Prime Dominating: Primes revenue streams key to their success

6. Ask the analyst

We hope that the data and analysis in this case study will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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