

10 ways amazon is raising your customers' expectations

research presented by **fortna** The Distribution Experts®

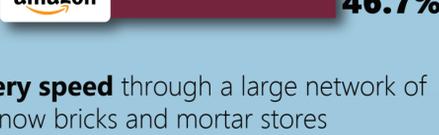
Amazon is resetting customer expectations around convenience, speed, price and selection. Echo and Prime make shopping **convenient** and easy with voice ordering, free shipping and free returns. Their expanding network and logistics capabilities enable **speed**. And Marketplace enables **price** comparison and broad **selection**, with different sellers competing to deliver the lowest price. Are you prepared to meet all of these expectations? **Here are 10 ways Amazon is raising your customers' expectations:**

1. Winning with convenient, frictionless shopping for customers

Prime membership is the flywheel of the business. Prime creates stickiness with customers and reduces friction with fast, free shipping for members. Amazon loses on shipping costs, but wins in shoppers' minds. **More online shopping searches start on Amazon than on Google.** And Amazon is moving the sale away from the store, computer and phone and **seamlessly integrating into customers' lives through voice ordering** with its Alexa/Echo products. Today, 62% of smart speaker owners in the U.S. have used the device to make a purchase.



online shopping searches that start on...



2. Increasing order-to-delivery speed through a large network of fulfillment centers, hubs and now bricks and mortar stores

Amazon's rapidly expanding distribution network and logistics capabilities allow them to deliver on the promise of Prime. Speed has always been a differentiator for Amazon, but with the acquisition of Whole Foods and the addition of physical stores, the company is building an omnichannel presence that could further increase speed. They are **reinventing the shopping experience** with Amazon Go stores designed for speed and convenience. Customers skip the checkout and are charged for their items when exiting the store. And they leverage other retailers' bricks and mortar investments with lockers that allow convenient 24-hour order pick-up and returns.



3. Marketplace enables broad selection and competition for the "buy box" drives low prices for customers

Sellers pay a fee to list their products on Amazon's platform and can have Amazon store, pick, pack, ship and deliver orders for an additional fee. Marketplace is a pillar of the business. It generates revenue whether or not Amazon ever touches the product. It's no secret that Marketplace gives Amazon insight into which products do well on the site and the pricing dynamics of those products. Amazon also has a number of private labels, including Amazon Basics, Wickedly Prime and Elements, and recently launched several apparel lines of its own. **Amazon's private labels often outperform brand name category leaders** due to low prices and free shipping which are favored in the "buy box" algorithm.

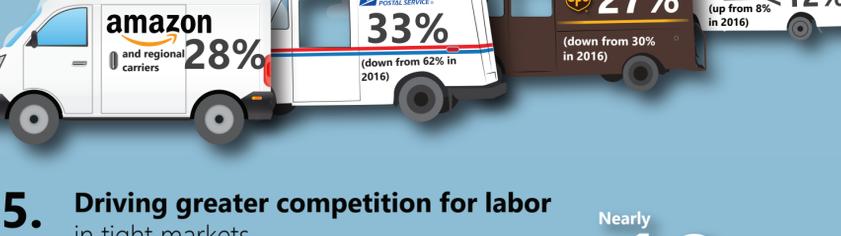
58% of all items sold on Amazon are through Marketplace sellers



4. Building its own logistics network to reduce costs — and to meet the need for additional capacity required for growth

They've leased an air hub and fifty Boeing 767s. They have 10,000 dedicated truck trailers and are acting as a freight forwarder in China. Logistics infrastructure is being built to reduce shipping costs, which have risen every year since 2009. Amazon's net shipping costs were \$7.2 billion in 2016. At the same time, **Amazon's shipping costs were \$27.7 billion in 2018.** In the same year, Amazon ordered 20,000 delivery vans and rolled out its Delivery Service Providers program, offering business loans to encourage entrepreneurs to start businesses to take on last mile delivery volume for the company.

Amazon goods shipped through parcel carriers in 2017:



5. Driving greater competition for labor in tight markets

Amazon's workforce has grown nearly 10x, from 65,000 to 613,000 globally, in the last 8 years. When they enter a market and hire a large number of its workers, it **puts pressure on other companies to increase wages** and offer additional perks to recruit and retain the best workers. **Amazon recently announced a \$15 minimum wage for U.S. workers** and challenged other retailers to follow suit. They hired 100,000 seasonal workers to meet peak holiday demand in 2018 alone.



6. Doesn't have to worry about profitability

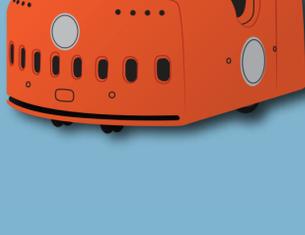
The market doesn't demand it of them (yet)--evidenced by their 22-year history of profits hovering around the zero line and stock price that soared to over nearly \$2,000 per share in 2019. Amazon showed a small amount of profit across the last 3 years, but profitability doesn't seem to be the goal. Amazon has increased capital expenditures every year for the last 10 years to \$13.4 billion in 2018. The company's **deep pockets for investment come from Amazon Web Services and Advertising cash cows** generating the bulk of Amazon's profits.



7. Invests in and seeks to acquire new technologies

Amazon uses technology to make its operations more efficient and drive costs out. There are more than 100,000 robots at work in the company's fulfillment centers. Amazon hosts a Picking Challenge competition every year, where the best minds in robotics try to solve the problem of each-picking with bots. As the event sponsor, Amazon is well-positioned to reward the winning team with investment in their technology. It was just seven years ago that Amazon purchased Kiva (now Amazon Robotics), effectively **removing the technology from the market and keeping it out of the hands of competitors** for several years until similar technologies could be developed by other suppliers. Since 2017, Amazon has acquired additional emerging technology companies including Ring, Blink, Canvas Robotics and Dispatch, a maker of their Scout last-mile delivery bots. Amazon's investments in self-driving start-ups Rivian and Aurora signal their commitment to driving down fulfillment and shipping costs.

bots in Amazon fulfillment centers: 200,000



8. Amazon Business is shaking up the industrial distribution market with consumer expectations around free shipping and next day delivery spilling over into business-to-business (B2B) purchases

Leading industrial distributors were already seeing a shift from catalog and branch sales to online ordering before Amazon relaunched its B2B unit, Amazon Business, in 2016. The company learned from AmazonSupply, then made improvements to Amazon Business to help it win over 1 million U.S. business customers, including:

- 80% of the 100 largest enrollment education organizations
- 55 of the Fortune 100 companies
- More than half of the 100 biggest hospital systems
- More than 40% of the 100 most populous local governments

Broader assortment, better pricing, and improved tools for search, procurement and reporting improved Amazon's competitive offering and forced several large industrial distributors to close branches and cut prices to compete with them. They continue to **expand Amazon Business outside the U.S. with launches in the U.K., Germany, Japan and India in 2017, and launches in Spain and France in 2018.**



9. Growth isn't just in the U.S.

They are expanding outside the U.S. at a rate of 23-28% year-over-year. The company has made significant investments in the U.K., Germany, Japan, India, France, Italy and Spain in the last two years. Amazon recently purchased its biggest competitor in the Middle East, Dubai-based Souq and in 2019 rebranded the site Amazon.ae. They launched Amazon in Australia and Amazon Prime in Mexico, signaling intent to compete with the countries' major online players.

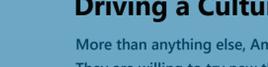


10. Growing both organically and through acquisition

Amazon funded its acquisition of Whole Foods by bond sale, rather than cash, as with other acquisitions. Clearly the company is prepared to make additional purchases to fuel growth. Amazon's market power rivals Walmart's – a company founded 32 years earlier.

Amazon's market cap is 3x that of Walmart's. And **Amazon is larger than it appears**, when you factor in third party sales collected from Marketplace. Amazon only reports as revenue the fees collected from Marketplace sales, so the revenue doesn't reflect their true sales growth. Even so, the company added \$64 billion in sales growth since 2010.

\$937 billion
In the last two years Amazon has increased its market cap by the combined market cap equivalent of



Driving a Culture of Innovation

More than anything else, Amazon is a company that is experimenting and learning all the time. They are willing to try new things, knowing that some of them will fail. In Jeff Bezos' own words, "the company is engineering a culture of relentless progress," and "using the divine discontent of the customer as a North Star." Amazon is building a moat around its 100 million+ Prime members by continuing to anticipate customer needs and responding with new products and services before anyone else realizes a need exists. What will you do to remain competitive?



For over 70 years, Fortna has partnered with the world's top brands to transform their distribution operations into a competitive advantage. Fortna helps Clients make and keep bold promises to their customers – fast, accurate and cost-effective fulfillment consistently at every touch-point, across every channel. Fortna's expertise spans distribution strategy, distribution center operations, material handling automation, supply chain systems and warehouse execution software systems. We built our firm on a promise – we develop a solid business case for change and hold ourselves accountable for results.

Sources Include: Fortna, Recode, Statista, Seeking Alpha, Bloomberg Business Insider, Wall Street Journal, eCommerce Times, Reuters, CNBC, MWPVL
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