

Amazing Amazon

Continually updated notes as I try to keep up with Jeff Bezos (impossible)

As of 10/23/2013

Background

JCR was working with a partner at a major consulting firm on CGF business. In a casual moment, they got talking about e-commerce, and the subject of Amazon came up. The partner shared that they had just completed a major piece about Amazon, using entirely public sources, for a retailer client. He graciously offered to share the work, and did not label the work confidential. JCR reviewed it and thought that the sources and insights were outstanding - but he thought it best not to quote or share the document directly. So these facts are largely from that analysis and that analysis' public sources (shown at the end of this paper). They are extended by other facts and articles discovered by JCR.

Purpose

The purpose of this working paper is to lay out a case that Amazon deserves high-priority consideration by virtually all Fortune 1000 companies operating in a retail or manufacturer environment.

Hypotheses

From 2015-2018, there is a high likelihood that:

1. ***E-commerce will be mainstream.*** It will become the preferred method of shopping for many consumers, and it will enjoy ubiquity and mainstream use by the global middle class like cell phones do today;
2. ***Amazon will lead e-commerce.*** Amazon will be - far and away - the leader in the e-commerce retailing space;
3. ***E-commerce will impact food and beverage.*** It will emerge as a force in food and beverage retail;
4. ***Amazon will aggressively enter food and beverage retail globally.*** They will establish themselves in key markets as one of the top 10 customers of most manufacturers;
5. ***Amazon will "perfect" home delivery.*** They will crack the "last mile" of retail. They will "perfect" delivering direct to the home or to a designated agent of the home, thereby making obsolete traditional retailers who cannot do this;
6. ***Amazon will "perfect" their business model.*** Amazon will dominate best practice in logistics, fulfillment, and customer satisfaction over this planning period, in a manner so effective that others who fail to keep up will be left behind by 2016;
7. ***Amazon will disrupt most business models.*** Amazon can potentially disrupt fundamental assumptions about store delivery, merchandising, and the viability of home delivery

Discussion

1. E-Commerce Will Be Mainstream

Experts project that:

- E-Commerce will exceed **\$1,400 billion** revenue by **2020**
- It will be ubiquitous, accepted by virtually all (like cell phones today)
- It will be primary source of purchasing by consumers, who will be intensively engaged
- It will extend from its current 33 retail categories into all retail categories

2. Amazon Will Lead E-Commerce

Amazon will be - far and away - the leader in the e-commerce retailing space. Amazon revenue will continue to grow fast: in 2013 it was \$75 billion, up from \$61, \$48, \$34, \$25, and \$19 billion in 2012, 2011, 2010, 2009, and 2008 respectively. Analysts predict revenue will reach \$90 billion in 2014. By 2015, Amazon is highly likely to have revenues exceeding \$100 billion annually. Conservatively, Amazon revenue is likely to grow 20% per year from 2015 to 2020, reaching at least \$250 billion in 2020 (one third of e-commerce and more than half the size of Wal-Mart today).

Exhibit 2: Projected Amazon Revenue Growth (2008-2024)



Note: 2008-2012 are actual revenues

Amazon will begin to directly threaten Walmart over this 2015-2020 planning cycle

Today, Amazon revenue (\$61 billion) is small compared to brick & mortar Wal-Mart, who closed 2012 with revenue of \$444 billion. But, it nonetheless is remarkable for an online retailer. In 2000, the entire universe

of e-commerce was predicted to be less than \$20B by Forrester and yet today, Amazon alone sells \$61 MM and is closing in on \$100 MM.

In contrast, it appears that Wal-Mart online sales will be less than \$10 million. \$61 million versus \$10 million: it seems reasonably clear who is going to win in e-commerce. Although recent reports make it very clear that Wal-Mart has woken up to the threat and is responding so no one can know for sure what the outcome of this battle will be.

Not bad for a company that opened for business as a bookseller less than 20 years ago - in 1995.

3. E-Commerce Will Impact Food And Beverage

Food & Beverages to Grow as a Proportion of Total E-Commerce Sales

Amazon will emerge as a force in food and beverage retail. Some have concluded that grocery was approximately \$36M in 2011 and would nearly double by 2015 to \$57M and nearly triple from 2011 to \$101B in 2020. Furthermore, it is predicted that beverages would grow from \$6B in 2011, to \$8B in 2015, and to \$17B by 2020 (see Exhibit 1).

4. Amazon Will Aggressively Enter Food and Beverage Retail Globally

Amazon will establish itself in key markets as one of our top 10 customers. The food and beverage category will grow in importance online and Amazon is expected to own 30% of that market.

5. Amazon Will “Perfect” Home Delivery

Amazon will crack the “last mile” of retail. They will “perfect” delivering direct to the home or to a designated agent of the home, thereby marginalizing traditional retailers who cannot do this. Amazon is currently testing and honing their approach through AmazonFresh.

AmazonFresh

AmazonFresh is a new service that is currently available in Seattle and Los Angeles in select zip codes. The service offers same-day and early morning delivery on orders of over \$35 of more than 500,000 Amazon items, including fresh grocery and local products. The annual “membership” costs \$299 with unlimited free delivery and is offered as an additional level of Amazon Prime.

Exhibit 3: AmazonFresh Sortable Shopping



6. Amazon Will “Perfect” Their Business Model

Amazon will dominate best practice in logistics, fulfillment, and customer satisfaction over this planning period, in a manner so effective that others who fail to keep up will be left behind by 2016. One example of their current testing in fulfillment, logistics, and delivery is the launch of Amazon Locker.

Amazon Locker

Now Amazon has taken a small step toward eliminating the UPS wait with a service inspired less by the internet and more by the Port Authority. Amazon Locker allows you to have your packages sent to the equivalent of single-use P.O. boxes housed in 24-hour convenience stores, grocery stores and drug stores. Amazon sends you an email with a pickup code, which you enter on a touchscreen to open the door of the locker containing your package. You have three days from the delivery date to pick it up.

Shared Warehousing Space

Additionally, Amazon has started sharing warehouse space with some of its key suppliers. Amazon has been sharing warehouse space with P&G for 3 years and is now in at least 7 P&G distribution centers. Amazon also has arrangements in place or is working out deals with companies such as Kimberly-Clark, Seventh Generation, and Georgia-Pacific.

7. Amazon Will Disrupt Many Business Models

Amazon can potentially disrupt fundamental assumptions about direct store delivery, merchandising, bottlers, OBPPC, and the viability of home delivery.