

AMAZON INVESTMENT REPORT

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1. Company Overview

1.1. Introduction and History

Amazon is one of the largest and most influential companies in the world. Headquartered in the United States, it operates as a **multinational technology company** engaged in various sectors, including **e-commerce, cloud computing, online advertising, streaming media, and artificial intelligence**. As of 2024, it ranks as the second-largest employer in the U.S. and the second-largest company in the World by revenue. It is also one of the Big Five American technology companies, alongside Alphabet, Apple, Meta Platforms, and Microsoft. Amazon's total assets reached **\$624.894bn** in 2024, a **18.38% increase** from 2023.

Founded in 1994 by Jeff Bezos, Amazon company originally started as an **online bookstore**. It **went public** in May 1997 and began selling **music and videos** in 1998. In 1999, Amazon set off to expand its business to include a wide range of product categories, including **music, consumer electronics, home improvement items, software, and games**. By 2000, it had become the largest online “**everything store**” in the world.

1.2. Global Presence

Since it began international operations by acquiring online sellers of books in the United Kingdom and Germany in 1998, Amazon has exploded into a **multinational and global** success story. It has built **over 150 fulfillment centers**, owns dedicated websites for shoppers and sellers in **around 20 countries**, and now operates across **5 continents**, delivering to **over 100 countries** across the globe. Within the U.S., Amazon has a presence across all the **50 states**.

It is worth mentioning that Amazon currently sees meaningful progress in **emerging geographies** such as India, Brazil, Mexico, and Africa, moving toward profitability. Such new geographies are expected to continue to grow and be profitable in the long run.

1.3. Missions

Amazon has four core missions: **customer obsession, passion for invention, commitment to operational excellence, and long-term thinking**. Satisfying customer needs has been its most important strategic focus. It strives to be Earth's most customer-centric company by steadily holding the joint commitment to customer needs across different market segments and various customer segments, namely consumers, sellers, brands, developers, enterprises, and creators.

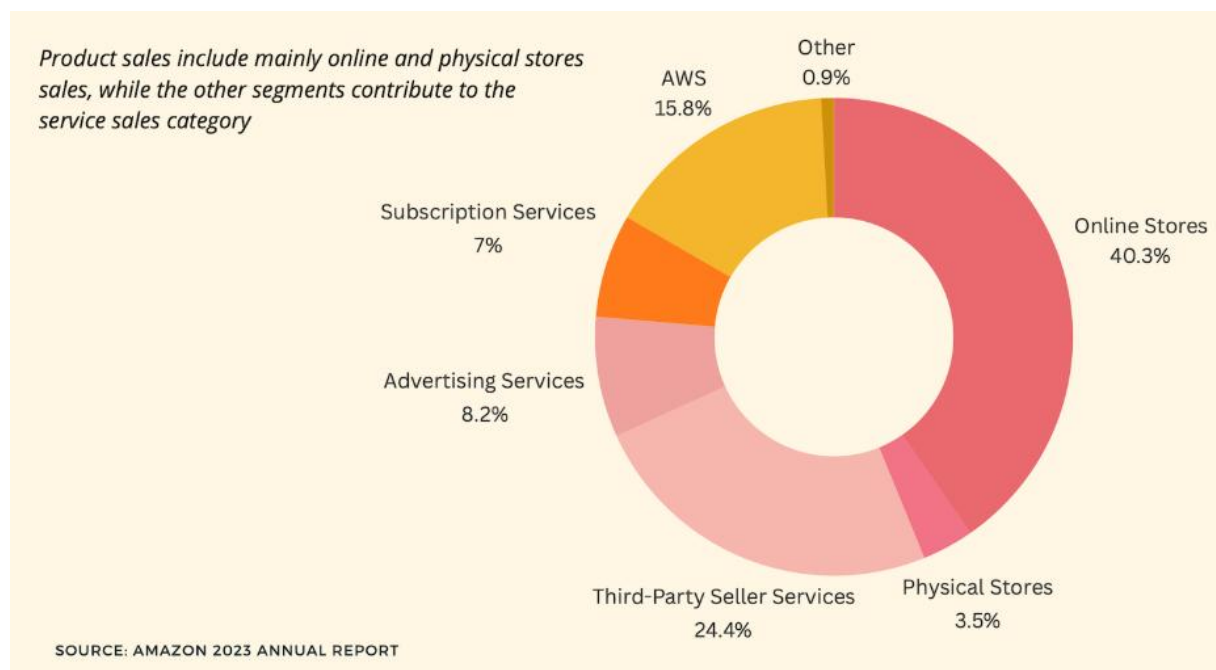
Amazon motivates advancements in different industries through **technological innovation and aggressive reinvestment of profits into capital expenditures**. It heavily invests in research and development, with annual R&D expenses as high as **\$88.544bn** for 2024.

1.4. Leadership and Corporate Structure

Amazon has a diversified **Board of Directors**, bringing about a mix of skills, qualifications, backgrounds, and tenures to support the Company's long-term performance.

Currently, it owns multiple **subsidiaries**, each functioning in a different division with a particular focus. Its main brands are in sectors such as **media and entertainment, e-commerce, grocery and retail, devices and services, cloud computing, technology, and logistics**. Also, it owns some **proprietary brands, health care companies, as well as household brands**.

2. Products and Services



Source: Amazon 2023 Annual Report

2.1. E-Commerce and Prime Subscription Services

Through **e-commerce**, amazon has revolutionized the way people shop by offering a comprehensive range of products at low prices. Today, e-commerce remains Amazon's largest product and the company partners with a number of well-known brands to provide its customers with a diverse range of products online, including household staples such as laundry detergent, toilet paper, and toothpaste.

While Amazon started its e-commerce business as the **first-party owner** of the online produces, it has also adopted another sales model by welcoming **third-party online sellers** to sell on the Amazon marketplace. Since 2017, more than half of its paid units is attributed to third-party

sellers using the Amazon marketplace.

Alongside its e-commerce service, Amazon has launched one of its most recognizable and profitable services, **Amazon Prime**, in 2005, offering an expansion of the service to the Prime subscription, such as the Prime Video.

2.2. Amazon Web Services (AWS)

Amazon launched **Amazon Web Services (AWS)** in 2002, which initially focused on providing APIs for web developers to build web applications on top of Amazon's ecommerce platform. In 2006, Amazon started its cloud journey with the launch of **Amazon Simple Storage Service (S3)**, which was designed to provide highly secure object storage with exceptional durability and availability. Shortly after, in 2007, Amazon introduced two more transformative services: **Amazon Elastic Compute Cloud (EC2)**, which enabled scalable computing capacity, and **Amazon SimpleDB**, a distributed database service. These early innovations laid the groundwork for what would become today's Amazon Web Services (AWS), revolutionizing the way businesses and developers interact with cloud infrastructure. Now Amazon offers its cloud service to 105 Availability Zones within 33 geographic Regions globally.

The company helped customers optimize their cloud usage while leveraging powerful, price-performant AWS capabilities, introducing **Graviton chips**, **S3 Intelligent Tiering**, and **Savings Plans**. In 2023, Amazon continued to push the boundaries of innovation and has announced the **next generation of generalized CPU chips (Graviton4)**, which offers better compute performance and much higher memory bandwidth, and **AWS Trainium2**, which delivers up to four times machine learning training for generative AI applications than Trainium1.

2.3. Generative AI

Amazon provides **Generative AI services** to organizations of all sizes and types through the AWS platform. Throughout the years, Amazon has developed nearly 1,000 generative AI applications across the company, and it has added dozens of new features to help its developers build **Foundation Models (FMs)** more easily. It introduced **Amazon Bedrock**, a new service designed to help companies leverage existing Foundation Models and Large Language Models to create GenAI applications. Furthermore, Amazon launched **Amazon Q**, a cutting-edge coding assistant that stands out as one of the most capable tools in the market to satisfy companies' business needs.

2.4. Smart Devices

Amazon has been devoting its efforts to **automatic speech recognition (ASR)**, a technology that converts spoken words into text. On November 6, 2014, Amazon introduced **Alexa**, a voice-activated intelligent personal assistant, alongside the launch of the **Echo**, a smart speaker

that seamlessly integrates with Alexa's voice-controlled capabilities. The Echo serves as a hub, enabling users to **interact** with Alexa to perform various tasks hands-free, and Alexa is designed to handle a wide range of functions, including setting timers, providing weather updates, managing to-do lists, and more, allowing users to streamline daily activities through simple voice commands.

In September 2019, Amazon unveiled the **Echo Studio**, a breakthrough smart speaker that delivers 360-degree sound and supports Dolby audio, offering a premium listening experience. This launch also saw the introduction of several other devices, including the updated **Echo Dot** with a built-in clock, a new third-generation Echo, and a series of Alexa-enabled devices, such as the **Echo Show** (a smart display) and **Echo Auto** (which integrates Alexa into vehicles). Additionally, Amazon expanded Alexa's reach by integrating the technology into other products, such as its **Fire TV**, making it even easier for customers to control their devices using just their voice.

Furthermore, Amazon has opened up Alexa's ecosystem to third-party manufacturers, allowing them to incorporate Alexa's voice assistant features into their own connected devices. This expansion has significantly increased Alexa's presence across a variety of smart home products and beyond.

In addition to Alexa, Amazon has developed a wide range of other popular devices, including **Fire Tablets**, **Kindle e-readers**, **Amazon Astro**, **Smart Home**, **Home Security from Amazon**, **Amazon Luna**, and **Fire tablets**, all of which enhance the Amazon ecosystem and integrate seamlessly with Alexa for an even more connected experience.

2.5. Media and Entertainment

Amazon offers a wide range of **digital entertainment** through its platforms, including **Amazon Prime Video**, **MGM+**, **Amazon Music**, **Audible**, **Twitch**, and **Wondery**. It produces and distributes content via **Amazon Publishing**, **Amazon MGM Studios** (which includes the Metro-Goldwyn-Mayer studio acquired in 2022), and owns **Brilliance Audio** and **Audible** for audiobooks.

Through services like **Amazon Originals**, **Prime Video**, **Amazon Games**, and **Prime Gaming**, Amazon provides access to streaming and downloadable movies, TV shows, music, apps, and games, as well as the ability to access personal files from anywhere.

2.6. Advertising

Amazon's **Advertising**, primarily driven by its sponsored ads, remains strong progress in the past several years, growing 24% from **\$38bn** in 2022 to **\$47bn** in 2023. It has added Sponsored TV to its advertising offering, facilitating brands to create adds to appear on Amazon's TV services such as **Amazon Freevee** and **Twitch**. Recently, it has also expanded its streaming TV

advertising by introducing ads into **Prime Video** shows and movies, developing streaming TV advertising from a strong start.

2.7. Physical Stores

Amazon has a diverse retail portfolio, both in terms of merchandise and the business models it offers across its platforms. As part of its strategy, Amazon has been investing in **physical stores** across the U.S. in recent years, aspiring to and setting off to expand its physical store business abroad. In 2017, Amazon has acquired **Whole Foods**, starting its presence as a brick-and-mortar grocery store, covering over 500 locations. Besides Whole Foods, its physical retail stores include **Amazon Fresh**, **Amazon Go**, **Amazon Books**, **Amazon 4 Star**, and **Amazon Pop-up**, where you can find Amazon's branded devices and other online items. Most importantly, when expanding its online retail services to physical stores, Amazon still sticks to offering the broadest retail selection at a low price. In the meantime, Amazon has incorporated cashier-less technology in some of its physical stores.

2.8. Logistics & Delivery

Amazon is continuously improving its **delivery** speeds, setting new records in 2023. Over 7 billion items were delivered to Prime members with same- or next-day service, including more than 4 billion in the U.S. and 2 billion in Europe. This achievement was driven by two key factors: the **regionalization of its network**, which brings inventory closer to customers, and the expansion of **same-day delivery facilities**, resulting in a 70% year-over-year increase in same-day or overnight deliveries. Moreover, regionalization has also reduced transportation distances, lowering Amazon's cost to serve. These savings help Amazon reinvest in speed improvements and offer more selection at lower prices, and these improvements, in turn, have boosted customer frequency and contributed to strong growth.

In addition to traditional delivery improvements, Amazon is experimenting with **innovative delivery systems**. The company is testing **drone deliveries** through **Amazon Prime Air**, aiming to deliver packages within a few hours to local communities within a small radius of its facilities. Amazon is also exploring **autonomous, electric delivery vehicles** through its **Amazon Scout program**. While it's unclear if these innovations will become mainstream, they represent the next step in Amazon's pursuit of faster, more efficient delivery solutions.

3. Financial Analysis

3.1. Market Performance

The worldwide e-commerce market is projected to reach **\$4.32 trillion in revenue by 2025**, with an **annual growth rate (CAGR) of 8.02%** from 2025 to 2029. In the United States, e-commerce sales are expected to grow by 8.7% in 2024, approaching \$1.2 trillion and

comprising 16.2% of total retail sales. The North American segment saw a 10% increase in sales, while the international segment experienced a 5% growth, indicating robust global demand.

As of February 23, 2025, **Amazon's stock price is \$216.58**, with a **market capitalization of approximately \$2.3 trillion** in February 2025. Over the past decade, **Amazon's stock has demonstrated significant growth**, reflected its expansion and diversification strategies, and made it one of the most valuable companies globally. It's notable that companies like Shopify have experienced substantial stock appreciation, attributed to the surge in mobile-commerce and digital payment solutions. Conversely, traditional retailers such as Walmart and Target have shown steady growth, bolstered by their investments in e-commerce and omnichannel retailing.

Stock Price Trend (2015-2025)

Company	Stock Price (Feb 2015)	Stock Price (Feb 2025)	Market Cap (\$T)
Amazon (AMZN)	\$370	\$212.28	\$2.30T
Walmart (WMT)	\$85	\$98.61	\$0.78T
Alibaba (BABA)	\$90	\$132.51	\$0.31T
Shopify (SHOP)	\$30	\$112.00	\$0.16T
MercadoLibre (MELI)	\$150	\$2,121.87	\$0.11T

The **Price-to-Earnings (P/E) ratio stands at 39.16**, reflecting high investor expectations. And below is the comparison between Amazon and its competitors:

- Amazon: P/E Ratio of 39.16
- Walmart: P/E Ratio of 40.34
- Alibaba: P/E Ratio of 25.51
- Shopify: P/E Ratio of 82.13

3.2. Profitability and Revenue Analysis

	Year Ended December 31,	
	2022	2023
Net Sales:		
North America	\$ 315,880	\$ 352,828
International	118,007	131,200
AWS	80,096	90,757
Consolidated	<u>\$ 513,983</u>	<u>\$ 574,785</u>
Year-over-year Percentage Growth (Decline):		
North America	13 %	12 %
International	(8)	11
AWS	29	13
Consolidated	9	12
Year-over-year Percentage Growth, excluding the effect of foreign exchange rates:		
North America	13 %	12 %
International	4	11
AWS	29	13
Consolidated	13	12
Net Sales Mix:		
North America	61 %	61 %
International	23	23
AWS	16	16
Consolidated	<u>100 %</u>	<u>100 %</u>

Source: Amazon

From 2019 to 2022, Amazon's revenue increased by approximately 37.62% from 2019 to 2020, 21.7% from 2020 to 2021, and 9.4% from 2021 to 2022, indicating robust growth, albeit with a deceleration in recent years. In 2023, Amazon's **total net sales were \$574.8 billion**, reflecting **an 11.8% increase** from \$514.0 billion in 2022. This growth was primarily driven by higher AWS (Amazon Web Services) revenue and increased online and advertising sales.

Operating Income (Loss)

Operating income (loss) by segment is as follows (in millions):

	Year Ended December 31,	
	2022	2023
Operating Income (Loss)		
North America	\$ (2,847)	\$ 14,877
International	(7,746)	(2,656)
AWS	22,841	24,631
Consolidated	<u>\$ 12,248</u>	<u>\$ 36,852</u>

Source: Amazon

Operating income surged to \$36.85 billion in 2023, significantly **higher than \$12.25 billion in 2022**, reflecting improved cost efficiency, pricing adjustments, and optimization of fulfillment and logistics costs.

Amazon reported a **net income of \$30.43 billion in 2023**, a stark **contrast to the \$2.72 billion loss in 2022**. The recovery was mainly due to lower impairments, improved operating

performance, and a rebound in investment valuations, particularly its Rivian stock. Furthermore, **Gross profit margin improved from 42.0% in 2023 to 43.5% in 2024** and **operating margin increased to 7.1% in 2024 from 5.5% in 2023**, indicating better cost management, and enhanced operational efficiency. Again, net profit margin rose to 4.1% in 2024 from 2.5% in 2023, showing improved profitability. For EPS, Amazon's **diluted earnings per share increased from -\$0.27 in 2022 to \$2.90 in 2023**, marking a strong turnaround in profitability.

Amazon demonstrated **strong year-over-year (YoY) revenue growth** across all four quarters of 2024, with particularly robust performance in AWS and North America operations:

Quarter	Net Sales (YoY %)	North America Sales	International Sales	AWS Sales
Q1 2024	\$143.3B (+13%)	\$86.3B (+12%)	\$31.9B (+10%)	\$25.0B (+17%)
Q2 2024	\$148.0B (+10%)	\$90.0B (+9%)	\$31.7B (+7%)	\$26.3B (+19%)
Q3 2024	\$158.9B (+11%)	\$95.5B (+9%)	\$35.9B (+12%)	\$27.5B (+19%)
Q4 2024	\$187.8B (+10%)	\$115.6B (+10%)	\$43.4B (+8%)	\$28.8B (+19%)

Amazon Web Service (AWS) continues to be a significant contributor, accounting for 15% of total revenue but over 60% of operating income, highlighting its profitability. AWS is Amazon's cloud computing division, providing on-demand cloud services, including computing power, storage, and databases, to businesses, governments, and individuals globally. However, its slow adaptation to mobile commerce could pose **a long-term risk** as social commerce platforms gain traction. Social commerce (e.g., TikTok Shop, Instagram Shopping) integrates e-commerce with social media, shortening the customer journey from discovery to purchase. TikTok Shop has rapidly grown, particularly in Southeast Asia and the U.S., leveraging its algorithm-driven engagement and influencer marketing. In 2023, TikTok Shop's Gross Merchandise Value (GMV) reached \$20 billion, with projections to hit \$50 billion by 2025, challenging Amazon's dominance in online retail.

3.3 Cash Flow and Leverage Analysis

Operating cash flow (OCF) is a key measure of Amazon's ability to generate cash from its core business activities. **OCF increased by 81% YoY in 2023** due to improved profitability, cost efficiency, and working capital management. Operating cash flow continues to strengthen, with \$84.9B in 2023 and a positive trajectory in 2024, supported by AWS growth and cost efficiencies. And OCF increased by 36% in 2024, showing the continued strong growth of Amazon. In 2024, quarterly OCF remained strong, with a consistent upward trend across all quarters. The improvement is largely attributed to AWS profitability growth, enhanced

fulfillment efficiency, and higher advertising revenues.

Metric	2023 (Full Year)	2024 (Full Year)	YoY Change
Operating Cash Flow	\$84.9B	\$115.9B	+36%
Free Cash Flow	\$36.8B	\$38.2B	+4%
Free Cash Flow (Net of Leases)	\$35.5B	\$36.2B	+2%

Amazon’s debt management and leverage position underscore its financial stability and capacity to sustain long-term growth investments. The company has demonstrated disciplined financial management, as reflected in its improving liquidity and leverage metrics. As of December 31, 2024, Amazon’s **current ratio increased to 1.06**, slightly higher than **1.05 in 2023**, indicating stable short-term liquidity. The **debt-to-equity ratio declined to 0.27**, marking a stronger equity base and reduced reliance on debt financing. Amazon has also made **substantial debt reductions**, lowering **total debt from \$67.1 billion in 2022 to \$58.3 billion in 2023 and further to \$55.2 billion by Q4 2024**, enhancing its leverage position. While **interest expenses rose to \$3.5 billion**, they remain manageable due to Amazon’s strong cash generation and positive free cash flow (FCF). Additionally, Amazon’s **quick ratio exceeding 1.00** highlights its robust short-term financial health, further reinforced by **cash reserves of \$91.3 billion in Q4 2024**. These financial indicators collectively reflect Amazon’s disciplined approach to liquidity management, operational efficiency, and long-term financial sustainability, ensuring continued strategic investments while maintaining a strong financial foundation.

3.4 Capital Allocation and Operational Efficiency

Amazon’s capital allocation strategy reflects a long-term investment philosophy, prioritizing customer experience, technological innovation, and market expansion over short-term profitability. The company follows a disciplined approach that balances investment in growth initiatives, strategic acquisitions, infrastructure expansion, and financial stability.

Key Capital Allocation Areas:

- **Investment in AWS Growth** – The majority of Amazon’s capital expenditures support AWS infrastructure, reinforcing its market dominance in cloud computing.
- **E-commerce and Logistics Expansion** – Amazon continues to expand its fulfillment and logistics network to improve delivery efficiency and customer experience.
- **Artificial Intelligence and Technology Innovation** – Significant investments in AI, machine learning, and automation across AWS and retail operations.
- **Strategic Acquisitions** – Select acquisitions to enhance technological capabilities and expand market reach, such as the \$3.9 billion One Medical acquisition in 2023.
- **Debt Reduction and Financial Stability** – Reducing reliance on debt financing to improve

financial flexibility.

- **Return to Shareholders** – Though Amazon does not pay dividends, it engages in stock buybacks, as seen in its 2022 and 2023 repurchase programs

Capital expenditures (CapEx) play a critical role in shaping Amazon’s cash flow strategy, reflecting its long-term investment priorities in cloud infrastructure, fulfillment centers, logistics networks, and technology innovation. These investments are essential for enhancing operational efficiency, expanding service capabilities, and maintaining Amazon’s competitive edge in the rapidly evolving digital commerce and cloud computing landscape. By strategically allocating CapEx, Amazon ensures sustained growth in high-margin sectors such as AWS, while simultaneously optimizing its retail operations through automation and logistics improvements.

Year/Quarter	Capital Expenditures (CapEx) (\$B)	Growth (%)
2022	\$58.3B	-8%
2023	\$48.1B	-17%
Q1 2024	\$12.4B	-10%
Q2 2024	\$13.2B	-5%
Q3 2024	\$14.1B	+2%
Q4 2024	\$17.3B	+8%

2023 CapEx declined by 17% YoY, reflecting cost discipline and efficiency improvements. **2024 CapEx growth resumed, particularly in H2 2024**, driven by AWS investments and AI development. **AWS remains the primary CapEx driver**, accounting for ~60% of total investments. CapEx is expected to rise in 2025 as Amazon accelerates AI-driven infrastructure expansion to maintain its leadership in cloud computing and retail automation.

Amazon’s operational efficiency has significantly improved, with **operating margins rising from 2.4% (2022) to 5.1% (Q4 2024)**, driven by AI-driven cost optimizations, automation, and better inventory management, this shows that Amazon’s increasing efficiency in managing costs while scaling operations. **Fulfillment costs dropped 10% YoY**, which highlights Amazon’s success in optimizing its supply chain, warehouse automation, and last-mile delivery systems. Additionally, **AWS's 33.5% operating margin underscores the high profitability of Amazon’s cloud business**, which benefits from AI integration, cost reductions, and increased enterprise adoption of cloud computing services. This overall improvement in operational efficiency ensures long-term financial stability and competitiveness in both e-commerce and cloud computing markets.

Metric	2022	2023	Q4 2024	YoY Change
Asset Turnover Ratio	1.22	1.24	1.25	+0.8%

Operating Margin (%)	2.4%	4.6%	5.1%	+1.7%
Fulfillment Costs (\$B)	84.3	78.6	76.4	-10%
AWS Operating Margin (%)	30.3%	32.8%	33.5%	+2.5%

4. Industry Analysis

4.1 Industry Background

Electronic commerce (E-commerce) refers to the business model of transacting goods and services over the Internet, including online retailing, wholesaling, and digital product sales. The core of the e-commerce industry lies in the digital transaction model, which breaks down geographical restrictions and enables consumers to shop anywhere and anytime. At the same time, the business model of e-commerce is also evolving, from the earliest simple online shopping to today's omni-channel retail, social e-commerce, live e-commerce and other diversified models.

4.1.1 History of the e-commerce industry

The development of the e-commerce industry can be broadly divided into the following four stages:

Budding period (1990-2000): During this period, the concept of e-commerce was initially formed, the earliest e-commerce platforms such as eBay (1995) and Amazon (1995) were born, and the Internet payment technology also began to develop. The market size was still relatively small due to low consumer acceptance of online shopping.

High-speed development period (2001-2010): With the popularisation of the Internet, e-commerce witnessed rapid growth. Enterprises such as Alibaba (1999) and Jingdong (2004) were established one after another, and C2C and B2C modes began to emerge. At the same time, the logistics system was gradually improved, providing basic support for the expansion of the e-commerce industry.

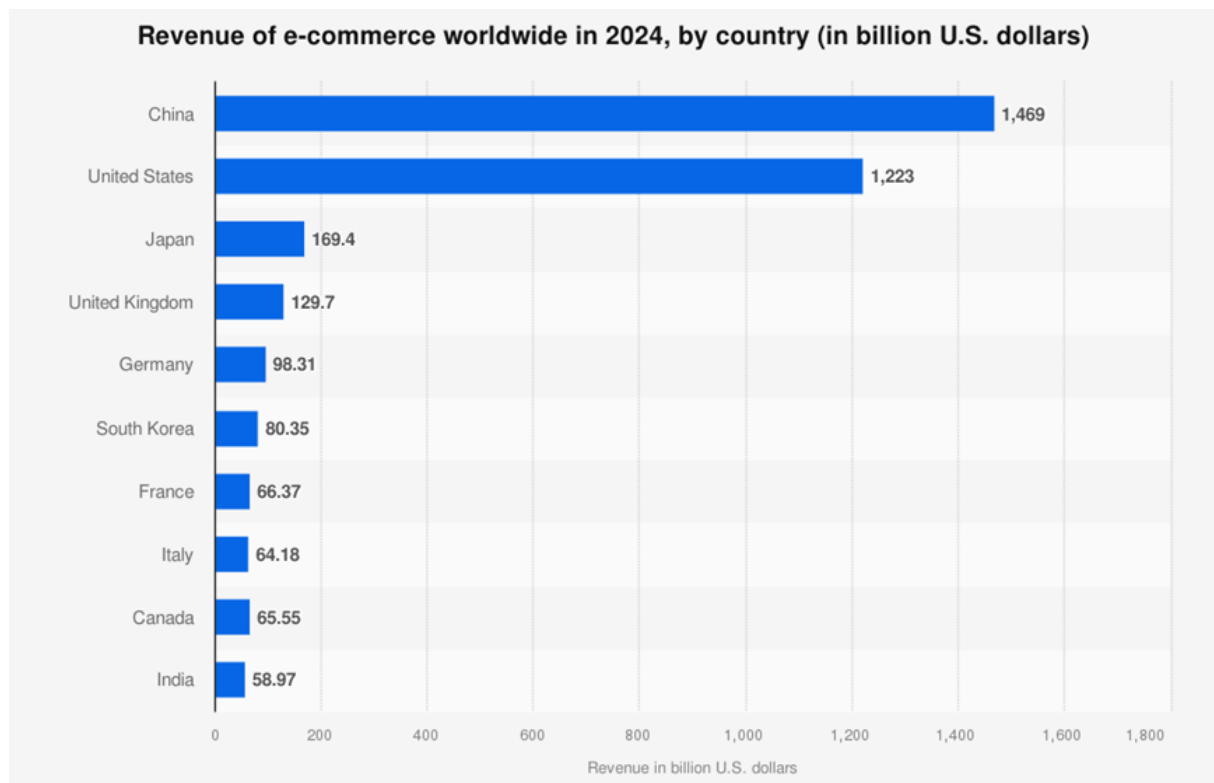
Maturity (2011-2020): During this period, the rapid development of the global mobile Internet and the popularity of mobile payment (e.g., Alipay, WeChat Pay) greatly contributed to the growth of e-commerce. New models such as social e-commerce, cross-border e-commerce and O2O (online-to-offline) have emerged, and the shopping experience for consumers has been greatly improved. Amazon's Prime membership service and Alibaba's Double 11 shopping festival have further fuelled the industry's growth.

Innovation period (2021-present): Technologies such as artificial intelligence, big data analytics, and meta-universe are gradually integrated into e-commerce. Live-streaming e-commerce, short videos and social e-commerce have become important engines of growth for the industry. Consumers' demand for personalised recommendations and instant shopping experience is also increasing, and the e-commerce industry is developing towards “intelligence and scenario”.

4.1.2 Global Market Size and Growth Trend

The global e-commerce market continues to be a major force in the retail industry, driven by digital transformation, increasing internet penetration, and consumer preference for online shopping. In **2024**, the total revenue of the e-commerce industry across major markets is projected to reach significant figures. According to Statista Digital Market Insights, China leads the global e-commerce market with an estimated revenue of **\$1,469 billion**, followed closely by the United States at **\$1,223 billion**. Other key markets include Japan (**\$169.4 billion**), the United Kingdom (**\$129.7 billion**), Germany (**\$98.31 billion**), and South Korea (**\$80.35 billion**). This data underscores the dominance of China and the U.S., which together account for the majority of global e-commerce revenue.

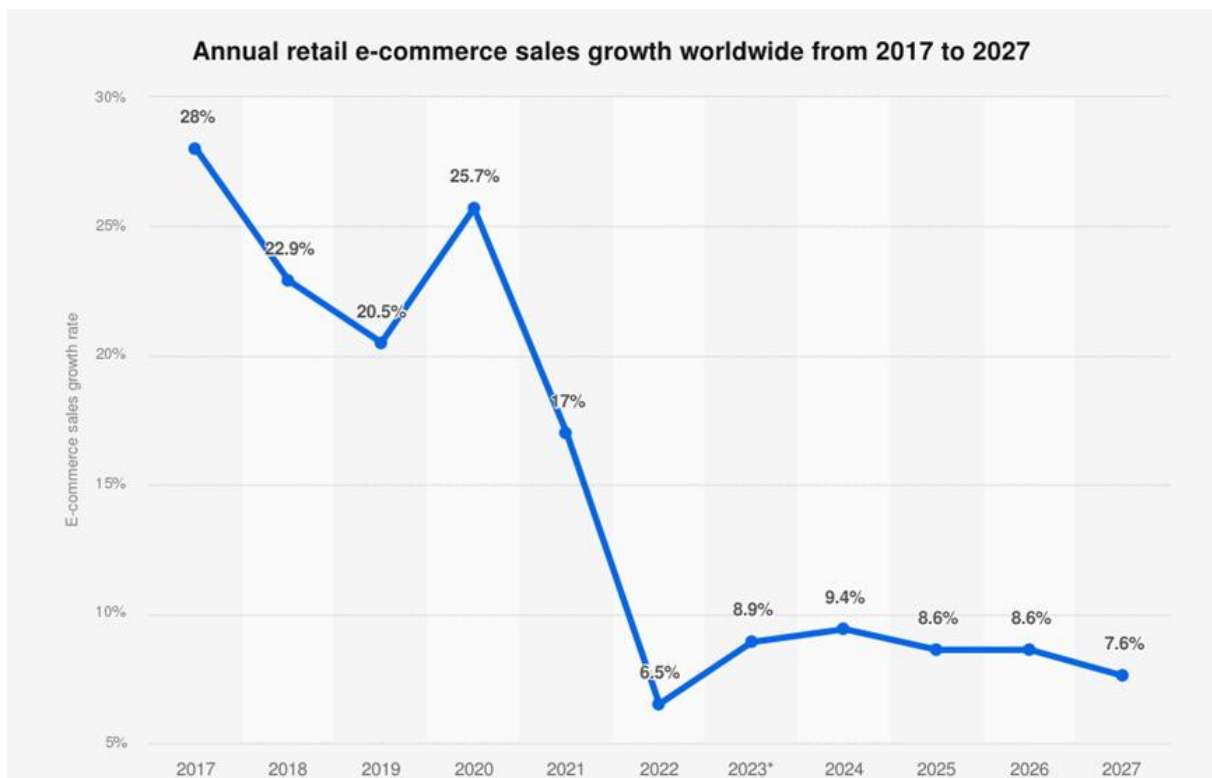
- **China and the United States:** Together, these two countries account for a significant portion of global e-commerce revenue, representing over **70% of the total market**. The dominance of Chinese platforms such as Alibaba and JD.com, alongside Amazon’s stronghold in North America, highlights the competitive landscape.
- **Japan, UK, and Germany:** While smaller in absolute terms, these countries still contribute significantly to the global market. Japan’s **\$169.4 billion** revenue is fueled by strong digital adoption, while the UK and Germany continue to show steady growth, driven by developed digital payment systems and efficient logistics.
- **Emerging Markets:** Countries like **India (\$58.97 billion)** and **Canada (\$65.55 billion)** are also experiencing rapid e-commerce expansion. India, in particular, is witnessing strong growth due to rising mobile internet users and increased investment from global players like Amazon.



Source: Statista

Despite the substantial revenue figures, the annual growth rate of global retail e-commerce has been on a declining trend since its peak in **2017 (28%)**. The growth rate dropped steadily, reaching **17% in 2020**, before plunging to **6.5% in 2022**, according to eMarketer (Statista 2024). The post-pandemic slowdown, saturation in mature markets, and shifts in consumer spending patterns contributed to this decline.

However, the market is expected to stabilize, with e-commerce growth projected to hover around **8.6%-9.4% from 2023 to 2026**, before slightly decreasing to **7.6% in 2027**. This suggests that while the rapid expansion phase is over, the e-commerce industry remains in a phase of sustainable growth.



Source: Statista

4.2 Characteristics of the Industry

Amazon operates in one of the most dynamic and rapidly evolving industries—e-commerce. This sector is characterized by high competition, continuous technological advancements, and shifting consumer behaviors. The global e-commerce market, which is projected to reach **\$4.1 trillion in revenue in 2024** and grow at a CAGR of **9.49% through 2029**, provides a lucrative but highly competitive landscape for Amazon.

Market Structure & Competition: The e-commerce industry is an oligopolistic market where a few dominant players—such as **Amazon, Alibaba, JD.com, and Walmart**—control a significant portion of global online retail sales. Amazon holds the largest market share. The industry is characterized by **high barriers to entry** due to the need for advanced logistics networks, massive infrastructure investments, and data-driven personalization capabilities.

Technological Advancements & AI Integration: Amazon leverages **artificial intelligence (AI), cloud computing, and automation** to optimize operations. AI-driven recommendation engines, voice-assisted shopping via **Alexa**, and warehouse robotics enhance efficiency and customer experience. The **adoption of AI is a major growth driver**, contributing to e-commerce revenue expansion by **1.2% globally in 2024**. The rise of **mobile commerce (m-commerce)** also plays a crucial role, with **57% of e-commerce revenue now coming from mobile devices**.

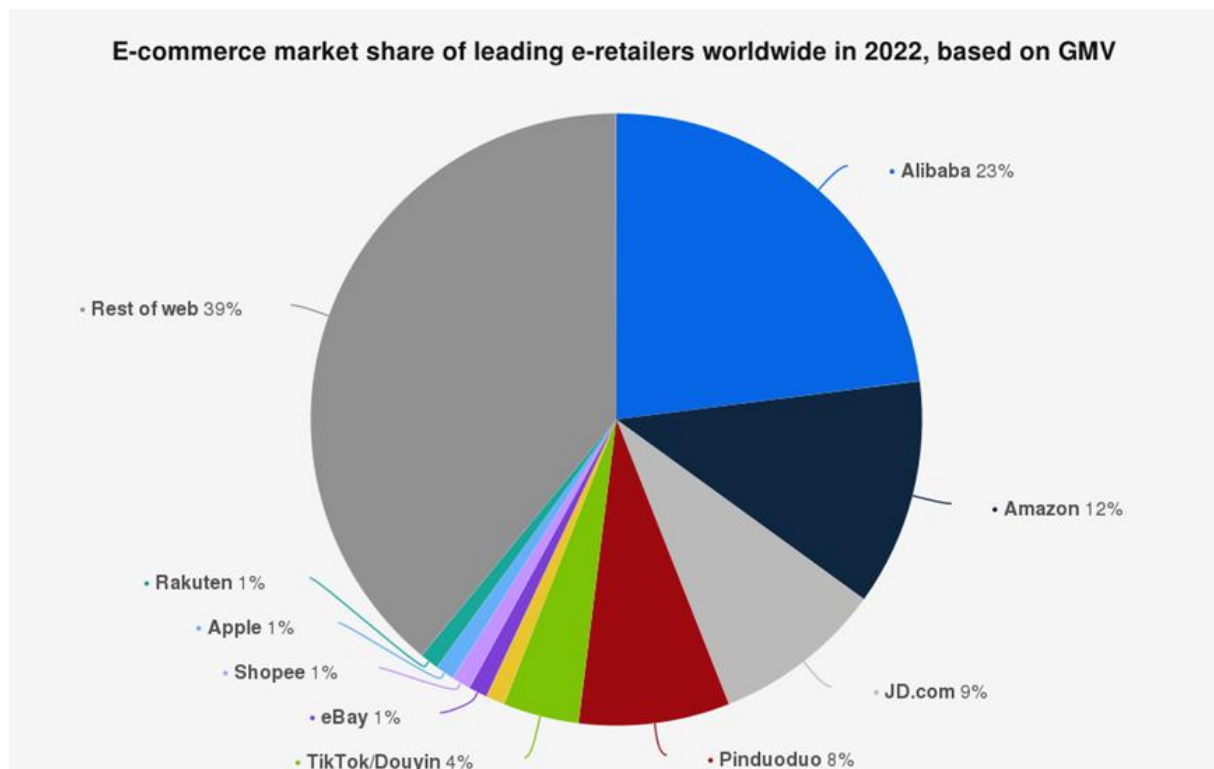
Logistics & Fulfillment Networks: A defining characteristic of Amazon's dominance is its **vast logistics infrastructure**, including **Amazon Fulfillment Centers (FBA)**, third-party seller networks, and last-mile delivery innovations. The company's logistics efficiency has set industry benchmarks for **same-day and next-day delivery**, significantly improving customer satisfaction and increasing **repeat purchase rates**.

Consumer Behavior & Social Commerce: Consumer preferences in the e-commerce industry are rapidly evolving. The integration of **social commerce**, where platforms like **Instagram and TikTok** drive direct purchases, has contributed to **17% of total e-commerce revenue**. Amazon is investing in influencer marketing, AI-driven recommendations, and loyalty programs like **Amazon Prime**, which has over **200 million subscribers worldwide**.

4.3 Competitive Dynamics

Amazon operates in a **highly competitive** global e-commerce landscape, facing challenges from regional and international players. While Amazon has long been the dominant force in online retail, it continues to compete against other major companies such as **Alibaba, JD.com, Pinduoduo, and emerging social commerce platforms like TikTok/Douyin**. The competitive dynamics in this sector are shaped by factors such as **market share, technological innovation, logistics infrastructure, and customer loyalty programs**.

Amazon holds a **12%** global market share in e-commerce, making it the second-largest player after **Alibaba (23%)**. **JD.com (9%)** and **Pinduoduo (8%)** are significant competitors, especially in China, where Amazon has a **limited presence**. Additionally, **TikTok/Douyin (4%)** is gaining traction through **social commerce**, offering a new model of consumer engagement that traditional e-commerce platforms must adapt to. Meanwhile, other established players such as **eBay (1%), Shopee (1%), Apple (1%), and Rakuten (1%)** have smaller but niche market shares.

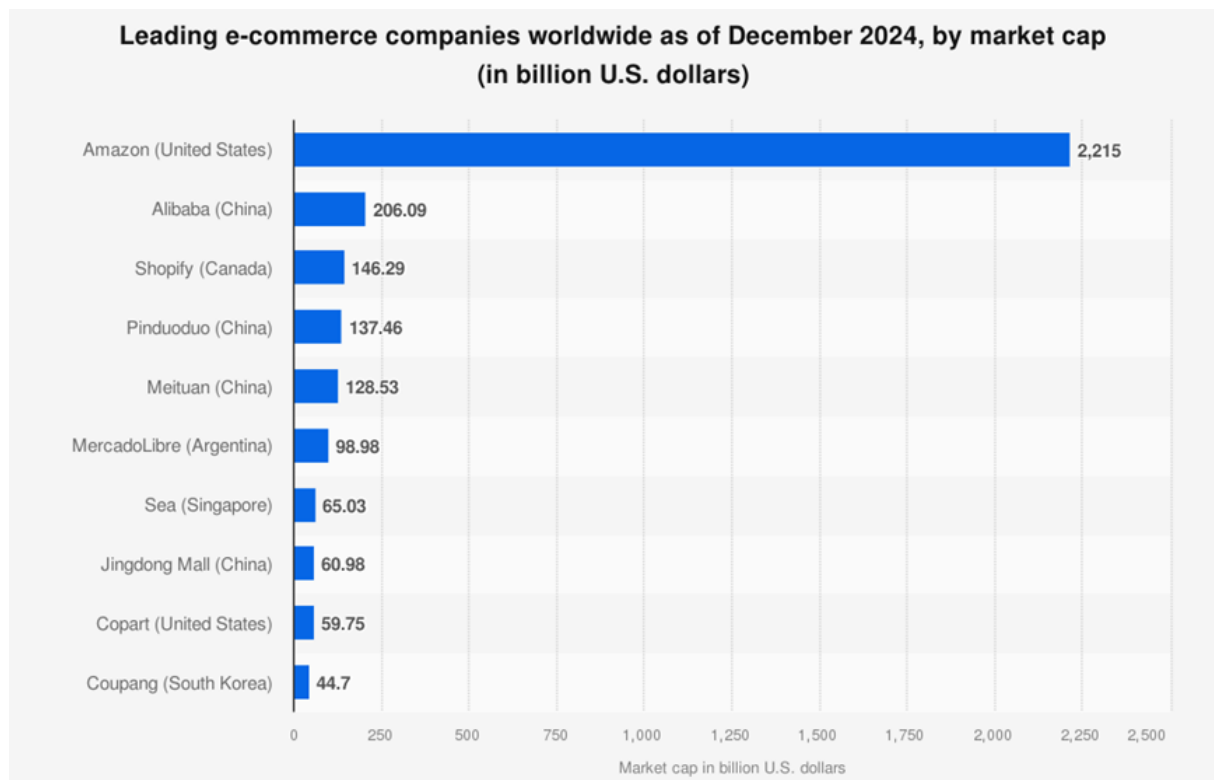


Source: Statista

Despite stiff competition, Amazon remains the **largest e-commerce company by market capitalization**, with a staggering valuation of **\$2.215 trillions** of December 2024. This dwarfs **Alibaba's \$206.09 billion**, **Shopify's \$146.29 billion**, and **Pinduoduo's \$137.46 billion**, highlighting Amazon's financial strength and ability to invest in logistics, AI-driven personalization, and cloud services (AWS). Other key competitors, such as **Mercado Libre (\$98.98 billion)** and **Sea (\$65.03 billion)**, have valuations under **\$100 billion**, indicating their regional rather than global influence.

Amazon maintains its competitive edge through several strategic advantages:

- 1) **Prime Membership & Customer Retention**— Over **200 million Prime members** benefit from fast shipping, exclusive deals, and streaming services, fostering customer loyalty and repeat purchases.
- 2) **Logistics & Fulfillment Dominance**— Amazon's Fulfillment by Amazon (FBA) service ensures fast delivery, setting industry benchmarks. The company is continually investing in warehouse automation and drone delivery to enhance efficiency.
- 3) **Diversification Beyond Retail**— Unlike many competitors, Amazon's revenue sources include AWS (cloud computing), advertising, and digital services, providing stability against fluctuations in retail sales.
- 4) **Global Expansion & Market Penetration**— While competitors like Alibaba and JD.com dominate China, Amazon has a stronger foothold in North America, Europe, and emerging markets.



Source: Statista

4.4 Industry Opportunities and Challenges

Amazon stands to benefit significantly from the continued expansion of the global e-commerce market, which is expected to grow from **\$4.1 trillion in 2024 to \$6.5 trillion by 2029**, at a **CAGR of 9.49%**. As digital transformation accelerates worldwide, Amazon can leverage its technological capabilities and logistics infrastructure to expand its market share. Mobile commerce is a major driver of this growth, contributing **57% of global e-commerce revenue in 2024**. By optimizing its mobile shopping experience, including AI-driven recommendations, voice commerce via Alexa, and one-click purchasing, Amazon can capitalize on this trend. Additionally, social commerce is reshaping consumer behavior, with **17% of global e-commerce revenue in 2024** generated through platforms like TikTok, Instagram, and YouTube. By integrating social shopping features, influencer collaborations, and live-stream selling, Amazon can enhance engagement and conversion rates.

Artificial intelligence and automation present further opportunities for Amazon. AI-driven predictive analytics, automated customer service, and warehouse robotics improve operational efficiency and customer experience. AI-driven e-commerce revenue is expected to increase by **1.2% annually**, making it a crucial area for Amazon's continued investment. Furthermore, Amazon Prime, with **over 200 million global subscribers**, remains a strong growth driver. Expanding Prime benefits, especially in emerging markets, can boost retention and customer lifetime value. Sustainability is also becoming a priority, with eco-friendly e-commerce projected to grow by **14% annually**. Amazon's initiatives in carbon-neutral delivery, electric vehicle fleets, and reduced packaging waste align with this trend, catering to environmentally

conscious consumers.

Despite Amazon's strong market position, it faces increasing challenges in supply chain management, regulatory compliance, and rising competition. Geopolitical tensions, including the Russia-Ukraine war, have caused global shipping costs to increase **by 18% in 2024**, leading to logistical inefficiencies and higher fulfillment expenses. Amazon operates **over 185 fulfillment centers worldwide**, making inventory distribution and last-mile delivery optimization crucial to maintaining service efficiency. Another significant challenge is regulatory scrutiny, as antitrust investigations in the U.S. and EU focus on Amazon's third-party seller policies, data privacy, and market dominance. Stricter regulations could result in financial penalties and operational restructuring, impacting Amazon's competitive edge.

Intensifying competition poses another major challenge. Alibaba holds **23%** of the global market share, compared to Amazon's **12%**, while JD.com controls **9%**. Additionally, **TikTok/Douyin (4%)** is gaining traction through social commerce, offering a new model of digital retail engagement. Amazon must innovate in marketing strategies and enhance social shopping features to counteract these emerging threats. Rising return rates also present financial risks, with **7.2%** of total e-commerce revenue lost due to product returns. While Amazon's flexible return policies enhance customer trust, they contribute to operational costs. Moreover, global e-commerce fraud losses are expected to surpass **\$48 billion in 2024**, requiring Amazon to continuously improve cybersecurity measures. Finally, consumer preferences are shifting toward sustainability, with **42%** of global consumers preferring slower, eco-friendly shipping options. Amazon must balance fast delivery with sustainability initiatives to meet evolving customer expectations.

5. Strategies and Growth Drivers

Amazon's vast and diverse range of businesses may seem to contradict the idea of a company maintaining a singular focus on one industry. However, rather than simply investing in profitable ventures, Amazon strategically looks beyond traditional industry boundaries, seamlessly integrating its various operations into **a cohesive ecosystem**.

5.1. Connecting Products

Amazon hits the core of the digital economy: **connection**. It employs a new strategy to **connect mutually beneficial products in an ecosystem**. It reinvests in seemingly irrelevant areas and industries, but all these acquisitions are designed to accelerate and expand on the basis of Amazon's existing core businesses.

For example, Amazon makes **movies** to keep and gain Prime customers who tend to buy three or four times more than the non-Prime customers and are less price-sensitive. By offering

movies as part of its Prime services, Amazon makes it harder for customers to do the math on the saved shipping costs and makes the membership seem truly worthwhile.

Another example that Amazon expands its products in an interconnected way is to **give loans to small and medium enterprises**. It offers loans at much more competitive rates than other banks to these small and medium enterprises, and it makes money from **commissions** when these businesses grow and do more transactions on Amazon's marketplace platform. This is also a reflection of Amazon's long-term horizon.

In addition, the acquisition of Kiva was to **bring in more advanced technology** to improve the efficiency and effectiveness of the systems of logistics and warehouse which Amazon already has as a key part of the business.

When Amazon took Whole Foods at a 27% premium, it seems another weird step that's bringing back its progress as a technology giant as well as an online retail commerce. But this acquisition is about the **food business** on which Amazon has never achieved much success. Food and grocery will **create a habit** for customers to come to Amazon frequently. This shopping habit is something that could not be brought about by its traditional book and electronic businesses: if customers are buying electronics on Amazon, they may not come to Amazon every day. Although selling food might be a low-margin business, it creates shopping habits.

5.2. Connecting Customers

Besides connecting products, Amazon **engages customers**. To reach this goal, it firstly brings about the **convenience** of online shopping, the rich **variety** of products whatever customer wants, and the **lower price** than brick-and-mortar shops. Also, it **adapts** quickly to the changing customer demands. For example, it speeds up its delivering using new technology like drones within 1-2 days, much shorter than the traditional one-week delivery horizon.

Secondly, Amazon changes itself from an online retailer to a **marketplace**. Unlike other platforms that don't allow third parties to get involved, Amazon welcomes third party sellers to sell on its platform, so that it attracts more and more customers given the greater variety of products. More consumers mean more sellers, more sellers mean more consumers, and it becomes a **virtuous cycle**.

5.3. Starting with Customers and Working Backwards

Amazon has repeatedly addressed the importance of **starting with customers and working backwards**, which means building skills and products in order to satisfy customer needs. Also, Amazon **works like a startup** and listens to staff's ideas. For example, the idea of

Amazon Prime comes from a low person in the organization.

When Amazon started building Kindle, Amazon had never involved in the hardware business. But Amazon realized that as the industry moved, **customers** are beginning to read more and more online rather than the physical paper copies. Having such a horizon, Amazon starts its attempts to make it easier for consumers to read on an electronic version and it has spent three years learning about hardware manufacturing. Besides the invention of Kindle, its hardware manufacturing capability enables itself to launch Echo and many other devices. Amazon is not making much money from Kindle, but it makes money on eBooks. Similarly, the move from selling DVDs towards creating streaming content is also **inspired by customers**.

5.4. Establishing Strong Infrastructure

Amazon has built a **world-class logistics network**, integrating **advanced technologies** such as robotics and computer vision to optimize warehouse operations and enhance efficiency. However, the company is undergoing a **strategic shift** in its investment priorities. While its extensive e-commerce infrastructure remains a core asset, Amazon is now allocating more capital toward cloud computing and AI infrastructure. Over the next decade, it plans to invest more than **\$100 billion** in **data centers** to strengthen its position in these high-growth sectors.

As part of this shift, Amazon recently announced a commitment of at least **\$11 billion** in Georgia to expand **infrastructure that supports AI and cloud technologies**, reinforcing its leadership in the evolving digital economy. This transition highlights Amazon's focus on long-term innovation, moving beyond traditional warehousing to build a robust technological foundation for the future.

6. Risk Analysis

6.1 Supply Chain

Amazon's vast logistics network heavily depends on third-party suppliers, transportation providers, and fulfillment centers worldwide. Global supply chain disruptions—such as those caused by COVID-19, geopolitical conflicts, or natural disasters—can significantly affect Amazon's delivery timelines and costs. For instance, in 2021, Amazon's fulfillment costs increased by 30%, reaching \$75.1 billion due to supply chain constraints and rising labor costs. Notably, Amazon's shipping and fulfillment costs grew to \$84.3 billion in 2023, up 9% YoY, primarily due to inflationary pressures. Additionally, the Suez Canal blockage in 2021 led to an estimated 6 billion to \$10 billion loss per week for major retailers, including Amazon.

6.2 Regulatory and Antitrust Scrutiny

Amazon faces increasing regulatory scrutiny in the U.S. and EU regarding market dominance, labor policies, and data privacy concerns. In 2023, the U.S. Federal Trade Commission (FTC) filed an antitrust lawsuit against Amazon, alleging unfair market competition practices. Furthermore, in the U.S., there are stricter e-commerce policies, limiting Amazon's ability to offer its own products alongside third-party sellers. There are increased labor costs and unionization pressure as well, particularly in warehouse operations. Amazon already faced a \$30 million settlement for alleged violations in California related to warehouse workers' wages. Additionally, the EU imposed a €746 million fine on Amazon in 2021 for violating GDPR data protection regulations. The EU is also planning to introduce new digital service taxes, which are expected to increase Amazon's operating costs by 2-5% in key markets.

6.3 Cybersecurity and Data Privacy Risks

Amazon's vast digital ecosystem collects sensitive customer data, making it a target for cyberattacks. A significant data breach could lead to:

- Regulatory fines (e.g., GDPR violations in the EU)
- Customer trust erosion
- Operational disruptions

In 2022, Amazon was fined \$887 million by the EU for data privacy violations, demonstrating increasing regulatory scrutiny on Big Tech.

As a leading cloud service provider (AWS) and e-commerce giant, Amazon is a prime target for cyberattacks, data breaches, and phishing schemes. AWS has experienced large-scale outages, such as the December 2021 system failure, which disrupted thousands of businesses and highlighted the risks of cloud service centralization. Additionally, in 2022, an API vulnerability led to a data breach affecting over 100 million customer records, further emphasizing Amazon's cybersecurity challenges.

6.4 Market Competition Pressure

Amazon competes in diverse sectors, including e-commerce, cloud computing (AWS), streaming services, and advertising. The company faces intense competition from:

- E-commerce: Walmart, Alibaba, and Target
- Cloud Computing: Microsoft Azure, Google Cloud, and IBM Cloud
- Advertising: Google, Meta, and TikTok

These competitors have significant financial resources, aggressive pricing strategies, and well-established customer bases, which can erode Amazon's market share and profitability.

Notably, AWS revenue growth has slowed to 13% YoY in Q4 2023, compared to 40%+ in earlier years, largely due to competition from Microsoft Azure and Google Cloud.

Additionally, many brands are shifting toward direct-to-consumer (DTC) models, reducing their reliance on Amazon's marketplace. For example, Walmart's e-commerce sales grew by 21% in 2023, intensifying competition in Amazon's core markets. Likewise, Shopify merchants generated over \$197.2 billion in Gross Merchandise Volume (GMV) in 2022, challenging Amazon's third-party marketplace business. Furthermore, TikTok Shop rapidly expanded in 2024, it is estimated to attract over 100 million social buyers in the U.S. in 2024, posing a threat to Amazon's dominance in social commerce.

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