

Amazon Searches for Its Next Big Hit

The tech giant has built three wildly successful businesses. It's been toiling for years to find a 'fourth pillar.'

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The team atop Amazon.com [AMZN 1.59%](#) ▲ has been pushing for years to find what they call a “fourth pillar,” an internal shorthand for the company's next big hit.

It is proving an elusive goal.

The tech giant has invested billions of dollars into an array of endeavors across several industries—and stoked Wall Street's interest along the way. Over the years, when news broke that Amazon was entering a new arena, its stock price would rise and shares of potential competitors would drop, a sign that investors believed Amazon would reshape another corner of the business world.

The first three pillars—each of them massive operations with tens of billions of dollars in annual revenue—are its online retail marketplace, its Amazon Prime membership program and its cloud-computing unit, Amazon Web Services. The company's core online shopping business, Prime and AWS account for almost 90% of the company's sales.

With a fourth pillar, “we're a completely different company,” Chief Executive Officer Andy Jassy said at a conference last year.

But nearly all its big bets in recent years—including forays into healthcare, in-person shopping, entertainment and hardware—so far haven't turned into thriving, profitable new businesses.

Some analysts and investors are starting to lose patience with what they see as Amazon's scattershot efforts and the poor returns on many of its big swings, questioning whether the company still deserves its reputation for being capable of relentless and limitless expansion. Just because Amazon says it's going to enter a new arena doesn't mean it's going to dominate it, and it may not be something for shareholders to celebrate.

“Their track record lately hasn't been as good,” said Hal Reynolds, chief investment officer at Los Angeles Capital Management, which holds Amazon shares.

Amazon, in a statement, pointed to its record in building its three successful pillars. “With good execution and a bit of continued good luck, we are optimistic that we have several very large opportunities to serve customers and deliver financial returns in the years ahead,” its statement said.

Here's a look at Amazon's efforts to find its fourth pillar.

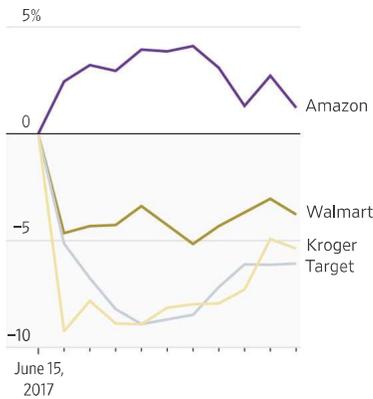
What comes after the 'Amazon Effect'

When Amazon moves into new industries, an “Amazon Effect” hits Wall Street. The company creates massive buzz that can cause sharp market reactions.

Share-price performance from the day prior to each event

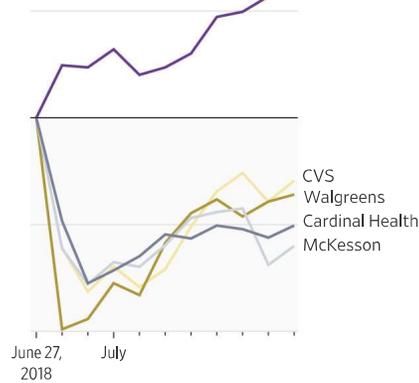
WHOLE FOODS ACQUISITION

Amazon announced it was buying Whole Foods Market in June of 2017. Grocery giant **Kroger's** share price spiraled, and **Walmart** and **Target** shares also took a dive following the news.



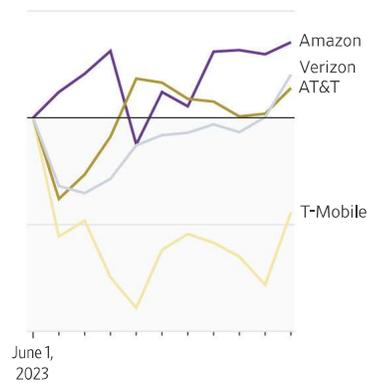
PILLPACK ACQUISITION

A year later, **Amazon** bought online pharmacy startup PillPack. Investors punished shares of retailers **CVS** and **Walgreens Boots Alliance**, along with drug distributors such as **McKesson** and **Cardinal Health**.



MOBILE SERVICE REPORT

In June, Bloomberg News reported that **Amazon** was looking into offering mobile-phone service. **T-Mobile**, **AT&T** and **Verizon** shares each fell 3% or more on the day of the report, which Amazon denied.



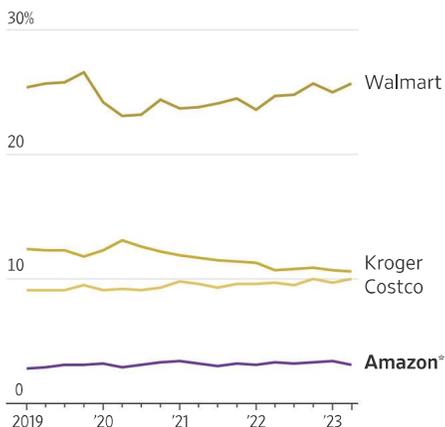
Sources: FactSet; Dow Jones Market Data

Despite Amazon's massive successes in online shopping and cloud computing, the assumption that the company will find similar results in other industries many times hasn't proven true.

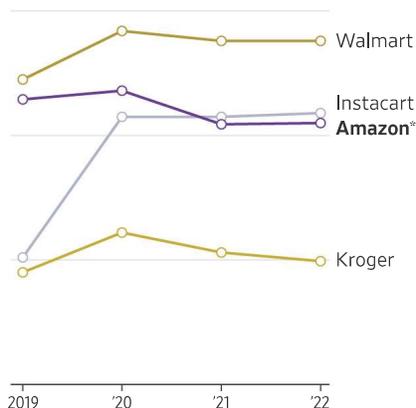
Take Whole Foods. Amazon's \$13.7 billion purchase of the grocery chain was a key part of a greater plan to expand its physical store footprint in the U.S. That included building out book stores, Amazon Go cashierless stores, Amazon Fresh grocery outlets and specialty stores such as its "4-Star" sites.

Share of U.S. grocery spending

Overall



E-commerce only



*Including Whole Foods

Note: Overall data are quarterly and as of 2Q 2023. E-commerce data are annual and as of 2022.

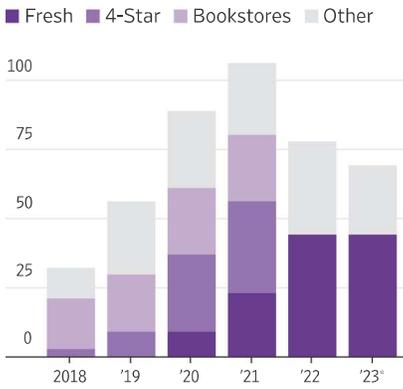
Sources: Numerator (overall); Insider Intelligence (e-commerce)

In the six years since, expansion efforts have been slower than expected. The company closed its line of book stores and 4-Star locations across the country, shut down many of its Amazon Go stores and paused new Amazon Fresh openings, while changes to Whole Foods have remained minimal.

Amazon ran into many challenges with its retail expansion, former employees said. Food at times sat spoiled at Amazon Fresh stores, partly because Amazon at first didn't have experience handling perishable items, employees said. Amazon was used to being nimble with its product listings in the e-commerce world, but changes at bricks-and-mortar stores move much more slowly, employees said.

While revenue tied to Amazon's existing three pillars each grew by about 40% or more from 2020 to 2022, sales at its physical-stores unit grew by less than 20%.

Amazon U.S. retail locations open at the end of each year



*As of July 31
 Note: Excludes Whole Foods, Zappos and pop-up stores.
 Sources: MWPVL International, the company

The company said it has seen a recent uptick in growth for its physical-store sales. Amazon remains committed to finding the right mix of offerings for customers, and it follows all food-safety guidelines and regulations, a company spokeswoman said.

Hardware

In 2014, Amazon unveiled its Echo speaker devices powered by Alexa. The smart assistant-and-speaker combo was an instant hit, and as it followed the success of the Kindle e-reader, it helped the company gather momentum as a hardware maker.

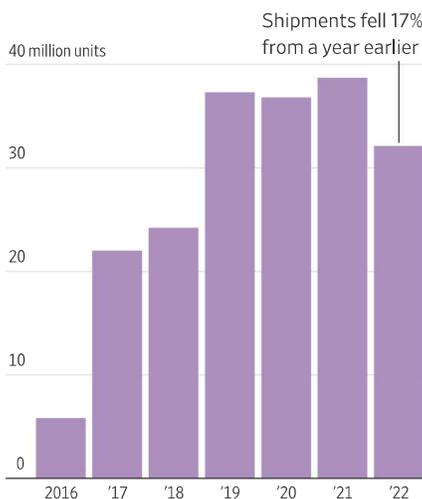
Yet since the release of the Echo, other competitors have entered the market with similar devices, and Alexa’s popularity has fallen. The devices business, while at times finding success through items such as its Ring cameras, has repeatedly announced products that have failed to catch on. Among them: a home-security drone camera, a finger ring, a home robot and various health-tracking devices.

The unit has lost billions of dollars in recent years, The Wall Street Journal reported last year. In August, the Journal reported that Dave Limp, the head of the devices business, will retire after more than 13 years at Amazon. The unit had been one of the targets of the company’s layoffs during the past year.

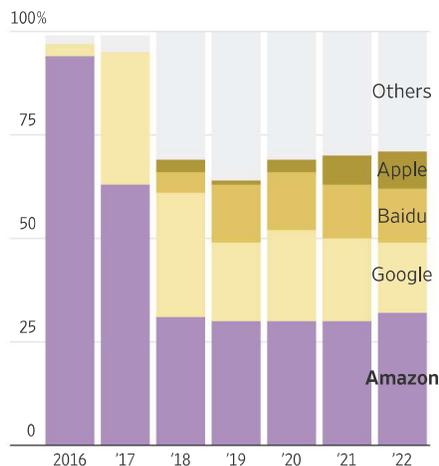
Amazon said it remains focused on invention and experimentation in its devices business, and that global engagement for Alexa increased by more than 35% in 2022.

Amazon’s smart speaker and display shipments have spiked in recent years as the market has grown, but competitors have eaten into the company’s once-dominant market share.

Amazon’s smart speaker and display shipments



Share of global smart speaker and display shipments, by company



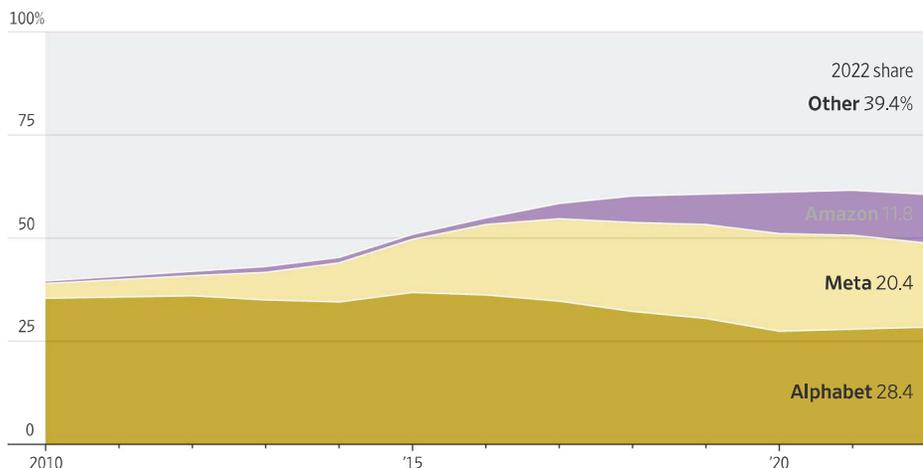
Note: Amazon figures don't include third-party vendors shipping Alexa-integrated smart speakers.
 Source: Canalis

Advertising

A few emerging Amazon efforts have grown into formidable businesses. The company's advertising segment, for example, has quickly emerged as a competitor to Google and Meta, with sales nearly doubling from 2020 to 2022, when they hit \$37.7 billion.

Amazon accounted for nearly 12% of U.S. digital advertising revenue in 2022, according to market-research firm Insider Intelligence, up from roughly 4% five years earlier. While the company has further plans for the business, most of its ad revenue is concentrated in search ads on its online shopping platform.

Share of U.S. digital advertising revenue, yearly



Source: Insider Intelligence

Healthcare

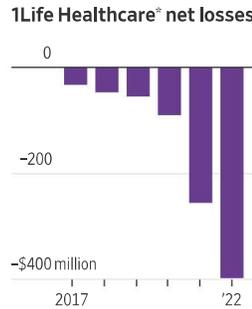
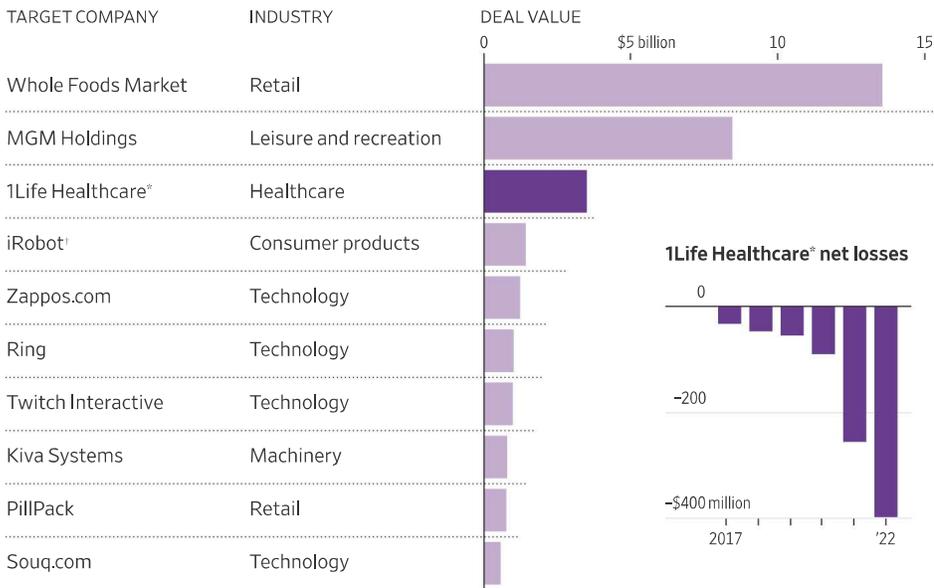
Healthcare is a primary area of focus for Jassy, Amazon's CEO.

Several early healthcare efforts by Amazon didn't work, including a joint venture with Berkshire Hathaway and JPMorgan Chase that ended after three years and a telehealth service named Amazon Care that it shuttered last year. The company in July laid off about 80 employees in its pharmacy unit.

Amazon's most recent effort has come through its \$3.9 billion purchase last year of 1Life Healthcare, which operates a primary-care practice named One Medical. The acquisition marks another big gamble for Amazon in the healthcare space, and with a medical company that had experienced deepening losses before Amazon bought it.

Amazon said its healthcare business is in its early days and that it is pleased with the progress it is making, including in its pharmacy business that it says is experiencing substantial growth.

Amazon's largest acquisitions



*Operator of One Medical †Deal pending

Note: Acquisitions include deals in which Amazon acquired or is acquiring 100% of the target company. Deal values are excluding debt.

Sources: Dealogic (acquisitions); the company (net losses)

Streaming

Amazon has also spent heavily in the entertainment industry, a business segment founder Jeff Bezos has cared deeply about. Amazon has sunk billions of dollars into making its Prime Video streaming service a competitor to Netflix, including through its Lord of the Rings show, “The Rings of Power,” which premiered in September 2022. It cost roughly \$715 million for its first season.

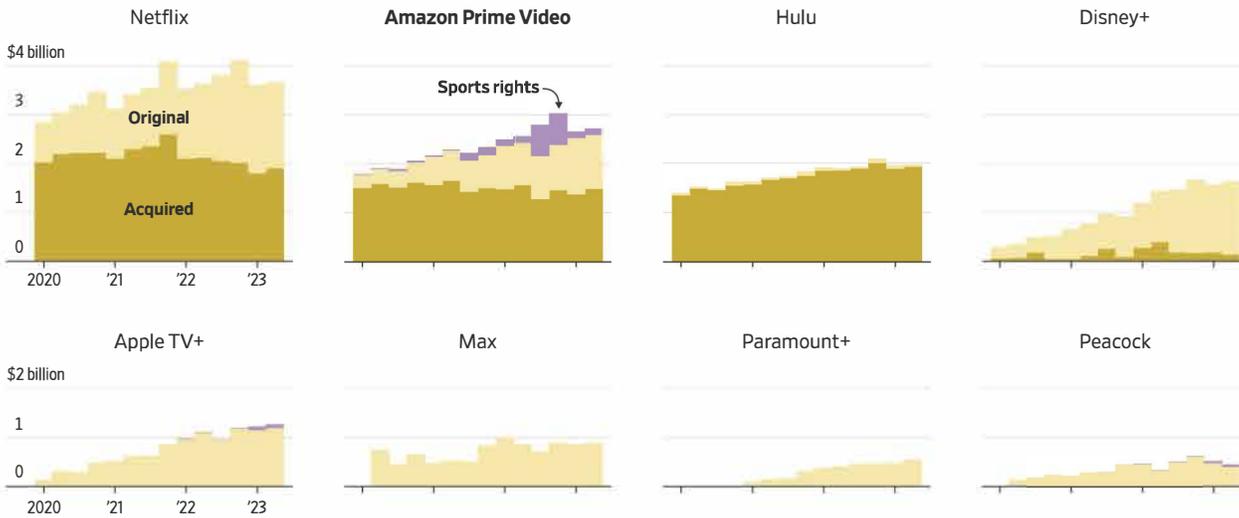


“The Rings of Power,” which debuted on Amazon Prime last year, cost roughly \$715 million for its first season. PHOTO: BEN ROTHSTEIN/PRIME VIDEO

The big spending has helped its streaming service gain a respectable audience, and the company has made many shows that were lauded by critics. But investors say it is unclear whether it’s truly successful. Prime Video is included in Amazon Prime memberships, where the primary benefit is free shipping, making it difficult to know how many subscribers consider the streaming service to be a valuable part of their membership.

Amazon is looking to generate more revenue from its entertainment efforts by launching an advertising-supported tier for Prime Video. A spokeswoman said its Thursday Night Football programming on Prime Video has been a success, and that the unit also collects revenue by renting and selling third-party movies and other content. Amazon said its total capitalized costs in 2022 for video and music content were about \$16.7 billion, including \$7 billion across Amazon Originals, live sports and licensed third-party content.

Estimated spending on content, quarterly



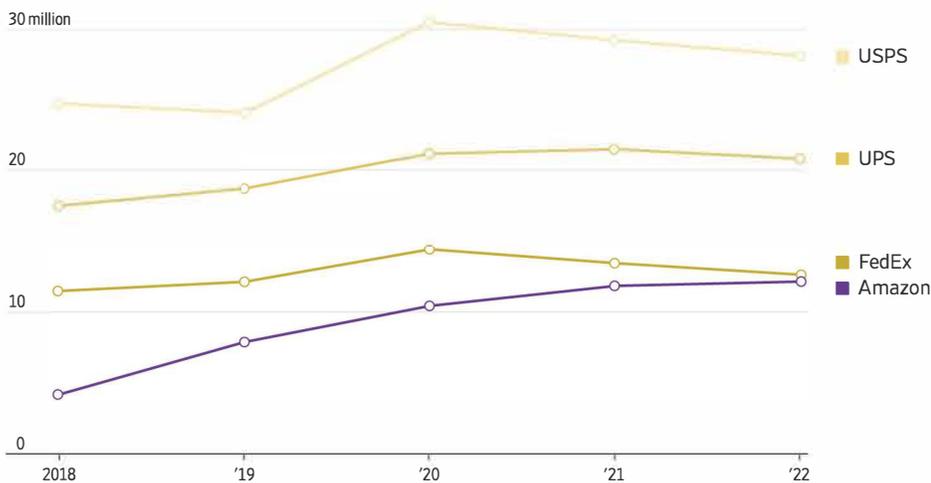
Note: Original content includes spend on titles commissioned and/or produced by the platform itself.
Source: Ampere Analysis

Logistics

Amazon's logistics empire has been a bright spot. The unit primarily handles Amazon packages, and its size has grown to be comparable to UPS and FedEx.

The company has continued to invest deeply in logistics and worked to push the limits of delivery speeds as it introduces more same-day shipping. Amazon has a growing set of warehouses, planes, long-haul trucks and vans. While it hasn't expanded heavily into shipping packages for other businesses besides the sellers on its site, such an expansion could on its own become a hit, investors say. The logistics empire that fuels Amazon's delivery success collects a massive stream of income from sellers, representing more than 20% of the company's total yearly revenue.

Average daily U.S. parcel volume



Source: ShipMatrix

What comes next

Amazon also has newer efforts under way that are so far unproven but which Jassy, the CEO, has highlighted as potential fourth pillars.

Those include a satellite-internet business, dubbed Project Kuiper, and an autonomous-vehicle business through a subsidiary called Zoox. Both of those projects have come at high costs for Amazon but could yield technological breakthroughs and new pools of customers. Amazon

says it is also focused on innovation in artificial intelligence; its efforts there have concentrated so far on new capabilities for its Amazon Web Services division.

But some investors and analysts think Amazon may be doing too much. AB Bernstein analyst Mark Shmulik recently wrote that Amazon is “simply pursuing too many ideas, with weaker ideas taking away the oxygen, capital, and most importantly focus from the truly disruptive initiatives that ‘only Amazon can do.’” He called on the company to tighten its strategy, writing that Amazon should focus on strengths such as logistics to drive innovation.

After Amazon’s big swings without big results, “now there’s pressure to create profits and not only have earnings, but have high-quality earnings,” said Reynolds, the investor from Los Angeles Capital.

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