

A blue Christmas for Amazon?

October 23 2014, by Mae Anderson



In this June 16, 2014 file photo, Amazon CEO Jeff Bezos walks on stage for the launch of the new Amazon Fire Phone, in Seattle. Amazon.com reports quarterly financial results on Thursday, Oct. 23, 2014. (AP Photo/Ted S. Warren, File)

It might be a blue Christmas for Amazon. The world's largest retailer gave a disappointing forecast for the crucial holiday quarter. The company also reported a wider loss than analysts expected for the third quarter.

Thursday's financial results could end investors' patience with Amazon's slim profit and its strategy of investing heavily in new products and

services to spur revenue growth. The stock price tumbled 11 percent in after-market trading. That's on top of the 22 percent decline the stock has already suffered this year.

Amazon has long focused on spending the money it makes to grow and expand into new areas. It launched a smartphone, the Fire, earlier this year, and has been offering a set-top video streaming device, a streaming video service and several tablets and e-book readers.

The company has also been investing in services for its loyalty program, Prime, which costs \$99 a year and includes free two-day shipping on many items. It has added a grocery delivery services and music streaming for Prime members as well as offering original TV shows such as the critically acclaimed "Transparent" starring Jeffrey Tambor.

But it is increasingly clear that what investors want more than revenue growth is a solid profit.

"The market was looking for more in terms of revenue and operating income and the fourth-quarter outlook," said Morningstar analyst R.J. Hottovy. "It's going to be a competitive landscape for retailers this holiday season and retailers will compete aggressively for consumers."

Amazon said it expects holiday quarter revenue of \$27.3 billion and \$30.3 billion, below analyst expectations of \$30.86 billion. That's an increase of 7 percent to 18 percent—slower growth than the prior-year holiday quarter when sales rose 20 percent.

During a conference call with analysts, Chief Financial Officer Thomas Szkutak said the stronger dollar will hurt fourth quarter revenue by about 2.5 percentage points.

The holiday period is crucial because retailers make a chunk of their

annual profit, about 20 percent, during the November and December period. Overall, the National Retail Federation expects sales during the period to be up 4 percent to \$617 billion.

Amazon CEO Jeff Bezos said the company was focused on making the holidays "easier and more stress free" than ever. The company has hired 40,000 seasonal workers and has expanded its Sunday shipping service. It now has more than 50 distribution centers in the U.S., up from 40 last year. And in July it announced it was opening eight smaller sorting centers for a total of 15 by the end of the year.

Speed of shipping is going to be a key for any retailer this holiday season, Hottovy said. Amazon offers free two-day shipping on many products via its \$99 Prime loyalty membership program. But competition is heating up: Target said Tuesday that it would offer free shipping on all items this holiday season.

"Last year, retailers figured out price matching wasn't enough," Hottovy said. "You have to get products to consumers quickly and cheaply as well."

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