

Amazon's one-day shipping means more customers, higher initial costs

By Richard Craver Winston-Salem Journal - Jul 26, 2019



The Amazon fulfillment center is in the final stages of construction on Tuesday, April 23, 2019 in Kernersville, N.C. (Journal Photo by Andrew Dye)

Amazon's plan to ratchet up free one-day shipping for Prime members — with a likely Triad component — is playing a short-term role in raising expenses and reducing profits.

It's not that Amazon is significantly hurt by the shift. Thursday, the online retail giant reported second-quarter net income of \$2.62 billion, up 3.6%.

However, diluted earnings of \$5.22 a share missed the average forecast of \$5.29 from analysts surveyed by Zacks Investment Research. It was a rare earnings miss for Amazon.

The company confirmed in May that it will begin operating a 1 million-square-foot fulfillment center in Kernersville with about 1,000 full-time employees , in 2020. The Triad Business Park site is off Old Greensboro Road inside Guilford County.

John H. Boyd, a national site-selection expert based in New Jersey, has projected the center could represent a \$150 million capital investment.

Amazon has not provided information on a second planned facility within Piedmont Corporate Park in Guilford.

An Amazon affiliate lease for the 16.64-acre site at 7941 National Service Road in High Point is scheduled to go into effect Aug. 30. The second Amazon facility will likely be linked to one-day shipping operations.

Amazon said in April it would spend at least \$800 million during the second quarter on transitioning more products to one-day shipping for Prime members. It declined Thursday to project similar costs for the third and fourth quarters.

The cost includes adding fulfillment centers and affiliated shipping hubs across the country.

“Customers are responding to Prime’s move to one-day delivery — we’ve received a lot of positive feedback and seen accelerating sales growth,” Jeff Bezos, Amazon’s founder and chief executive, said in a statement.

“Free one-day delivery is now available to Prime members on more than 10 million items, and we’re just getting started.”

‘We’ve seen this before’

Brian Olsavsky, Amazon’s chief financial officer, told analysts Thursday that many of the one-day shipping-logistics changes have been built into what consumers see on the website.

“You’re surprised by the speed,” Olsavsky said. “It’s not like you have to search one-day shipping specifically to find out what’s available.

“It’s growing and it’s pervasive. It strengthens the need to not have to go elsewhere to buy a product because you need it quickly. So, I think it becomes a part of your routine.”

Olsavsky said Amazon expects that “as we build this capacity to more and more regions, and more and more ZIP codes, and adding more and more selection, that everyone will see the same thing that we see already in major cities.”

Olsavsky said the one-day shipping ramp-up likely will affect earnings the rest of fiscal 2019, but will be primarily offset by sales growth.

“It does create a shock to the system now,” Olsavsky said.

“We saw some additional transition costs in our warehouses. We saw some lower productivity as we were expanding rather quickly, both local capacity in the off-season, also in our delivery networks.

“We also saw some costs were moving — buying more inventory and moving inventory around in our network to have it be closer to customers.”

Olsavsky compared the one-day shipping transition to when Amazon began two-day shipping with Prime.

“We’ve seen this before,” Olsavsky said. “We have had large changes to our distribution and transportation network repeatedly in our history, from going from media to a vast variety of different product lines — hardlines non-sortable as we call them.

“We’ll work through that over the next several quarters, and when the dust settles, we’ll return to increased efficiency.”

N.C. short on Amazon centers

Amazon’s Kernersville facility will be similar to the one it opened in Kannapolis in July. Both facilities will primarily handle bulky items that are 18 inches and larger. Those can include items as varied as diaper boxes, kayaks and furniture.

Boyd said Amazon “recognized, under its new growth strategy, that it is shy of distribution centers in North Carolina.”

“Infrastructure spending by Amazon in the Triad, and elsewhere, is the means to the end in order to enhance its customer appeal. The expansion of its free Prime delivery from two days to one is a great example and will have major appeal.”

Boyd called the strategy huge and said it “will tip the scales dramatically in Amazon’s favor vis-a-vis its brick-and-mortar competitors.”

Target and Walmart have gained traction against Amazon by offering two-day free shipping to homes or to their stores. Kohl’s recently agreed to handle Amazon returns in its stores.

Keith Debbage, a professor of geography and sustainable tourism and hospitality at UNC Greensboro, said “North Carolina has a more dispersed urban network relative to many other Southern states, which made solving our distribution network more challenging.”

Rachael Lighty, regional manager of external communications for Amazon Operations, said in May that consumer demand and Amazon's algorithm network help dictate where products are inventoried.

Often, products are fulfilled at the site closest to the manufacturing and production sites of suppliers.

"Each fulfillment center is different in terms of buyer trends and unique product offerings," Lighty said.

"It's certainly possible that while the Kernersville center will focus on products for delivery in North Carolina, Virginia and South Carolina, it will have the ability to ship products around the world."