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Not delivering: Amazon underperforming in Australian e-commerce

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Amazon Australia's failure to attract consumers raises concerns about its future.

Amazon Australia holds 2-3 % of the Australian online shopping market

Amazon Commercial Services Pty Ltd (Amazon Australia) has just released its latest financial reports, showing $292.3 million in revenue (excluding interest) for the year ending December 2018. Amazon Australia officially launched its e-commerce site in December 2017 and reported a disappointing $17.4 million in revenue for the period. These disappointing revenue figures are raising questions about whether Amazon will disrupt the local market as much as was anticipated.

Amazon Australia introduced its third-party seller support service, Fulfillment by Amazon, in February 2018, and its membership subscription service, Amazon Prime, in June 2018. The services generated $23.2 million and $4.3 million in revenue respectively in 2018, accounting for 9.4 % of its total revenue. These figures alone outperformed last year's total revenue, but still demonstrate Amazon Australia's lack of appeal for Australian consumers. Amazon Australia launched its first Prime Day sales in July with mixed results due to low membership numbers and failure to stir up demand for Prime subscriptions.

Amazon China has similarly struggled to compete in China, leading the e-commerce firm to announce that it will withdraw from the Chinese market in April. Amazon's only online store remaining in China will be for Kindle books, and all other e-commercial business will be conducted via its global marketplace, mainly Amazon US. In China, Amazon has failed to compete in a market crowded by local competitors. The firm only holds a 1 % share of the online shopping market in China while the industry's largest player, Alibaba Group, currently holds a 71 % market share.

Similarly, Amazon Australia holds 2-3 % of the Australian online shopping market, behind major competitors like Woolworths, Coles, Wesfarmers and Apple Australia. The low concentration of Australia's e-commerce market makes it more favourable for Amazon than the Chinese market. However, the company is floundering in the local market as it is failing to recognise its own limitations and the needs of local consumers. It spent $68 million in marketing in 2018, a 40-fold increase from 2017, but still failed to attract Australian online shoppers. In July 2018, Amazon Australia announced that it will block access to the US site due to new GST requirements, even though the Australian site offered less than 10 % of what the US site offered at the time. The massive consumer backlash forced the company to reverse its decision in November.

Amazon Australia performed well in

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2018 compared with 2017, but it is still a tiny market in the scheme of Amazon's global operations. The 2018 Annual Report of Amazon.com Inc, Amazon Australia's ultimate parent, shows top 4 contributing countries with Japan at 4th place earning US$13.8 billion in net sales.

However, the business of the other two Amazon companies in Australia boomed in 2018. Amazon Corporate Services, which mainly provides data hosting, brought in $490 million revenue with 30.6 % growth. Amazon Web Services Australia, which mainly provides support services, brought in $306.2 million revenue with 61.7 % growth. Evidently, Amazon has only begun its expansion into Australia. Shortly after the release of its 2018 financials, Amazon announced that it will bring Amazon Advertising to Australia. As the third largest digital advertiser in the US behind Google and Facebook, Amazon's entry into the local advertising industry will likely affect the market, but it may take a long time for the firm to find a foothold.

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