

Analyst: Amazon's new 1-day shipping initiative will increase sales by up to \$24B, drive stock to \$2,600

BY TAYLOR SOPER on September 3, 2019 at 2:29 pm
[Read More of this article...](#)



GeekWire

Amazon's ambitious plan to offer one-day delivery for Prime members is already [costing more than expected](#). But at least one investment bank is betting that the shipping initiative will be a longterm boon for the company's stock price and overall sales.

Based on increased Prime adoption and increased spend per Prime member household from the oneday offering, RBC Capital Markets analyst Mark Mahaney said in a research note Tuesday that Amazon can generate up to an additional \$24 billion in total annual

revenue. That's an increase of about 10 percent, based on the company's 2018 results. The firm also raised its 12-month stock price target from \$2,250 to \$2,600, up nearly 50 percent from Amazon's closing price of \$1,789 on Tuesday.

Amazon [announced](#) plans earlier this year to shift its free-two day shipping program for Prime members to one day, speeding up delivery times for the company's most valuable customers. It is currently rolling out one-day shipping first in North America and then internationally. Amazon [said in June](#) that free one-day shipping was available to Prime members on more than 10 million products, with no minimum purchase amount.

The company hopes that the strategy adds more value to its \$119/year Prime memberships and increases the amount of purchases customers make on Amazon versus elsewhere — including physical retailers.

Amazon forecasted an \$800 million expense for the second quarter related to the initiative and [in July it said those costs were higher than projected](#) as the tech giant expands capacity with its transportation networks and warehouses.

The company's shipping costs have ballooned in recent years as it aims to speed up delivery. During Q2, Amazon spent \$8.1 billion on shipping, up 36 percent. In 2018, Amazon spent \$27.7 billion on shipping, an increase of \$6 billion or 28 percent over the prior year.

The "last mile" of delivery — getting packages from the closest fulfillment center to a customer's home — can be particularly costly. To help meet demand, Amazon last year [created its own small business program](#) that lets anyone run their own package delivery fleet. The company also uses third parties for next-day orders, which was the focus of a [BuzzFeed investigation published this week](#).

But based on its own calculations and discussions with industry experts, RBC is bullish about the investments and eventual impact from one-day shipping. The firm also surveyed consumers and noted that Amazon is "tapping into real demand" from people who want next-day shipping.

Amazon's push for faster shipping has reshaped the retail industry, with many competitors such as Target and Walmart now offering their own free two-day delivery options. Walmart in May [unveiled](#) one-day delivery on more than 200,000 items with a minimum order threshold of \$35.

But RBC said Amazon still has a "large competitive advantage with its 20 years of experience in building its delivery infrastructure — 175 fulfillment centers (FCs) globally, 40 sortation centers (SC), 100 delivery stations, and 20 air gateways — as it is now a Third Party Logistics provider itself, making it increasingly difficult for just about any retailer to replicate."



And just as Amazon forced competitors to offer their own free 2-day shipping promise, RBC thinks history will repeat itself with one-day shipping. The firm predicts that “once Amazon builds an even greater loyal user base with free one-day delivery, the industry may have to follow, again.”

RBC also sees the one-day initiative as a win for sellers on Amazon, noting a flywheel effect. “One-Day makes Prime more appealing for consumers, which makes FBA (Fulfillment by Amazon) more appealing for vendors, which increases supply on Prime, which makes Prime more appealing for consumers...” It could also increase the potential for Amazon as a third-party logistics provider, RBC said. The company is building out its own delivery network, which has [forced longtime partners such as FedEx to cut shipping ties with Amazon](#).

Amazon first launched its Prime membership program in 2005 at \$79 per year with free 2-day shipping. It has raised prices twice while continually adding new perks. There are more than 100 million Prime-eligible items in the U.S.

Amazon said it had more than 100 million Prime members across 17 countries in April 2018; it has not provided an updated number since then. In addition to fast free shipping, members also get benefits including cloud storage, streaming movies and TV shows, discounts at Whole Foods, and other perks.



***Taylor Soper** is GeekWire's managing editor, responsible for coordinating the newsroom, planning coverage, and editing stories. A native of Portland, Ore., and graduate of the University of Washington, he was previously a GeekWire staff reporter, covering beats including startups and sports technology. Follow him [@taylor_soper](#) and email taylor@geekwire.com.*