Amazon Cites Warehouse Changes in Tripling Profit, Slashing Shipping Costs

E-Commerce Company Says Shift Toward Regional Distribution Brings Faster Deliveries

Amazon's network of fulfillment centers includes this warehouse in Kansas City, Missouri. (Getty Images)

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E-commerce giant Amazon said streamlining its distribution network with changes in its warehouses and delivery centers over the past year fueled higher third-quarter profit and led to increased sales.

The move to a regional shipping network from a national hub-and-spoke model allowed Amazon to cut its national warehouse footprint as well as delivery times and shipping costs for the second straight quarter, the Seattle-based company said on Thursday.

Customers receiving online orders faster helped drive a 13% increase in sales to more than $143 billion and an increase in net income to just under $10 billion in the third quarter, from $2.9 billion for the prior-year period.

Amazon, one of the biggest users of U.S. industrial real estate, said more direct links between its fulfillment warehouses and smaller delivery centers has allowed it to fill more orders on the same day or next day.

“The benefits of moving from a single national fulfillment network in the U.S. to eight distinct regions are exceeding our optimistic expectations, and perhaps most importantly, putting us on pace to deliver the fastest delivery speeds for Prime customers in our 29-year history,” CEO Andy Jassy told investors on a call to discuss the company's earnings.

Jassy has focused this year on cutting costs by reducing real estate costs, laying off workers and cutting back hiring. However, Amazon said it will hire 250,000 full-time, part-time and seasonal employees in the United States to handle an expected rush of online buying in the upcoming holiday season.

Investing in Growth

Amazon pulled back its real estate expansion last year but has shows signs of late that it is willing to invest in strategic growth. The company agreed to one of the San Francisco Bay Area's largest industrial property deals of the decade, committing to lease more than 1.2 million square feet of new warehouse space in Vacaville, California.

The changes to Amazon’s logistics network that started last year, aimed at placing more inventory closer to customers, helped cut transportation costs in the most recent quarter, Jassy said.

“When customers receive items quickly and conveniently as they are now from Amazon, they’re going to consider us more frequently for more of their shopping needs,” Jassy said. “We’ve re-evaluated every part of our fulfillment network over the last year. We obviously like the results, but don’t think we’ve fully realized all the benefits yet."

He added that "we continue to make steady improvement in fine-tuning placement algorithms to enable even more in-region fulfillment and further increase consolidation into fewer shipments.”

Neil Saunders, managing director of retail analytics firm GlobalData, attributed Amazon’s strong quarterly results partly to its efficiency initiatives.

“Amazon was fast to respond to problems of over-capacity and dabbling in areas that were not making a return,” Saunders said in a research note. “However, the jump in profit is also down to the pursuit of smart growth initiatives such as the reorganization of the fulfillment network to both reduce costs and improve service for customers.”