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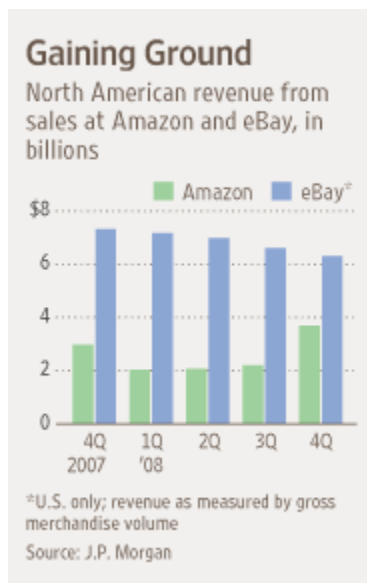
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Amazon's Sales Surge, Bucking Retail Slump

By GEOFFREY A. FOWLER

Defying the brutal retail slump, Amazon.com Inc. said profit rose 9% and sales surged 18% in the fourth quarter as the Internet giant used its pricing muscle to lure shoppers.

Chief Executive Jeff Bezos's goal of establishing Amazon as the Internet's biggest store, with aggressive discounting, free shipping offers and a relentless expansion into new product categories, is paying dividends just as most retailers are struggling and scaling back.



The Seattle-based company reported earnings of \$225 million, or 52 cents a share, for the quarter ended Dec. 31, compared with a profit of \$207 million, or 48 cents a share, a year earlier. Revenue reached \$6.7 billion.

The results, which exceeded Wall Street's expectations, along with a surprisingly sunny sales forecast for the current quarter sent shares of Amazon up 14% in after-hours trading. Shares finished at \$50 in 4 p.m. trading on the Nasdaq Stock Market.

Amazon Chief Financial Officer Tom Szkutak said discounting during the "very competitive quarter" hurt the company's gross profit margins, but "one of the reasons that you see the growth that you do is because of the value we are providing."

The deals the company proffered on some flat-screen televisions were one example. In late November, as the shopping season took off, Amazon offered two 42-inch plasma televisions made by Samsung and Panasonic that normally sell for \$999 each for just \$699 apiece, including free shipping.

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Amazon's prices and convenience have turned people such as 31-year-old Winchester, Va., resident Jessica Redden into regulars. Over the holidays, "I was on Amazon every day," says the stay-at-home mother of five, who spent about \$600 on the site over Christmas on items including an iPod and DVDs. "We did do price comparison among the big box stores that were local to us, and found time and time again that Amazon had the best price."



Associated Press

An Amazon.com employee grabs boxes off the conveyor belt to load in a truck at their Fernley, Nev., warehouse last month. Profit rose 9% and sales surged 18% in the fourth quarter, beating Wall Street's expectations.

Signing up for Amazon's \$79 "Prime" shipping service, which offers shoppers unlimited two-day shipping, also made Ms. Redden a loyal customer. "I

don't feel like I need to venture to any other site," she says, for products ranging from diapers to toys.

Amazon is charging ahead as the recession is reordering the retailing landscape. Established chains such as Circuit City and Linens 'N Things have filed for bankruptcy and even e-commerce sites are struggling to find buyers. Amazon arch-rival [eBay](#) Inc. last week reported its first-ever quarterly revenue decline, driven in part by a 16% slump in the amount of goods sold on its sites globally.

Mr. Bezos said it's not clear how much Amazon stands to benefit from the closings of traditional retailers. "It is difficult to say what if any short term impact you might see from that," Mr. Bezos said on a conference call. "In the long term, fortunately the markets that we operate in are very large markets and there is room for lots of winners."

Overall e-commerce spending declined in the fourth quarter amid the recession, but Amazon's share of the market rose to about 10% from 6% in 2005, while eBay's main commerce site declined to 17% from 22% in 2005, according to Susquehanna Financial Group.

Customers of ChannelAdviser Corp., a Morrisville, N.C., company that helps retailers such as Brookstone sell products across e-commerce sites, found an average of 45% same-store sales growth using Amazon this holiday season, whereas those that used eBay saw sales drop an average 7%.

"Amazon is growing at a good two to three times the pace of everyone else," says Scot Wingo, Channel Adviser's chief executive.

eBay says it is overhauling its marketplace to improve customer service and make it more attractive for fixed-price sales of items. "We now need to innovate again," says Stephanie Tilenius, senior vice president and general manager for eBay North America.

Amazon approached the holidays by offering a wider array of goods, even though it faces lower profit margins when it expands into new types of products. Over the last year, Amazon has added stores for digital music, out-of-print CDs, and even accessories for motorcycles and ATVs.

Amazon also employed its growing scale and sophisticated inventory management system to leverage cheaper prices on some products, say analysts. While most other retailers had to place orders to fill their stores for holiday shopping early in the fall, Amazon -- which doesn't have stores -- could wait until as late as November to place its orders.

"Amazon was able to restock when nobody else was restocking. As demand was falling off a cliff, they could get better rates," says John Aiken, an analyst with Majestic Research.

Amazon has also broadened its offerings with its own products, such as the Kindle ebook reader. But the company has struggled to meet demand for the device, which sold out quickly each of the past two holiday seasons.

Mr. Bezos said the Kindle was driving incremental book sales. "When people buy a Kindle, they continue to buy the same number of physical books going forward as they did before they owned a Kindle. Incrementally, they buy 1.6 to 1.7 Kindle books for every physical book that they buy."

The company has stoked suspicions that it might release a new version of the Kindle at an event on Feb. 9, to be attended by Mr. Bezos.

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