Q4 2020 Earnings Call

Company Participants

- Brian Olsavsky, Chief Financial Officer
- Dave Fildes, Head of Investor Relations

Other Participants

- Brian Nowak, Analyst
- Doug Anmuth, Analyst
- Eric Sheridan, Analyst
- Heath Terry, Analyst
- John Blackledge, Analyst
- Justin Post, Analyst
- Ross Sandler, Analyst

Presentation

Operator

Thank you for standing by. Good day everyone and welcome to the Amazon.com Q4 2020 Financial Results Teleconference. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question-and-answer session. Today's call is being recorded.

For opening remarks, I will be turning the call over to Director of Investor Relations, Dave Fildes. Please go ahead.

Dave Fildes {BIO 20638976 <GO>}

Hello, and welcome to our Q4 2020 financial results conference call. Joining us today to answer your questions is Brian Olsavsky, our CFO.

As you listen to today's conference call, we encourage you to have our press release in front of you, which includes our financial results as well as metrics and commentary on the quarter. Please note, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2019.

Our comments and responses to your questions reflect management's views as of today, February 2nd, 2021, only, and will include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and our filings with the SEC, including our most recent annual report on Form 10-K and subsequent filings.

During this call, we may discuss certain non-GAAP financial measures. In our press release, slides accompanying this webcast and our filings with the SEC, each of which is posted on our IR website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures.

Our guidance incorporates the order trends that we've seen to date and what we believe today to be appropriate assumptions. Our results are inherently unpredictable and may be materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet, online commerce and cloud services and the various factors detailed in our filings with the SEC.

This guidance also reflects our estimates to date regarding the impact of the COVID-19 pandemic on our operations, including those discussed in our filings with the SEC, and is highly dependent on numerous factors that we may not be able to predict or control, including the duration and scope of the pandemic, including any recurrence; actions taken by governments, businesses and individuals in response to the pandemic; the impact of the pandemic on global and regional economies and economic activity, workforce staffing and productivity; and our significant and continuing spending on employee safety measures; our ability to continue operations in affected areas; and consumer demand and spending patterns as well as the effects on suppliers, creditors and third-party sellers, all of which are uncertain.

Our guidance also assumes, among other things, that we don't conclude any additional business acquisitions, investments, restructurings or legal settlements. It's not possible to accurately predict demand for our goods and services, and therefore, our actual results could differ materially from our guidance.

And now I'll turn the call over to Brian.

Brian Olsavsky {BIO 18872363 <GO>}

Thank you for joining us today. I realize that you may have questions about the news, which we announced today in our press release, but I would like to begin with some comments on Q4 results, and then we can proceed to your questions.

First, I'd like to start by thanking the nearly 1.3 million Amazon employees who have risen to the challenge of serving customers around the world during this pandemic. We're proud that more than 500,000 people chose to take new jobs at Amazon in 2020. We're committed to providing all employees with great jobs, including $15 an hour starting pay in the US, health insurance, 401(k) matching, leading parental benefits and upskilling opportunities. We remain focused on the safety of our employees and delivery partners, particularly in our fulfillment and logistics operations and stores as well as the customers shopping in our Whole Foods Market and other stores.

Our Q4 results include approximately $4 billion in COVID-related operating costs including additional employee pay during the holidays. We continue to see productivity headwinds from physical separation and training of new employees, and of course, investments in PPE for employees and enhanced cleaning for our facilities. This Q4 spend brings our total COVID-related costs for the year to more than $11.5 billion.

Our teams worked hard in 2020 to ramp up in-house COVID-19 testing capabilities that are incremental to those already available to the general public. More than 700 employees are now being tested every hour, and globally, we've built hundreds of COVID-19 testing sites and two labs. We are encouraging essential employees working at Amazon fulfillment centers, AWS data centers, and Whole Food Market stores across the country to receive the COVID-19 vaccine at the earliest appropriate time. We are also working at the federal and state levels to support the vaccinations of frontline employees, and those in the community who are providing essential services throughout the pandemic, including enabling pop up clinics in Washington State and Florida with more on the way.

Now some comments on Q4 results. Our fourth quarter holiday season has always been the busiest time of our year. This year presented additional challenges for our teams as we work to meet strong customer demand, while simultaneously growing our operations' footprint and welcoming far more new employees than any prior Q4. We welcomed nearly 175,000 new full- and part-time employees in Q4 alone. This compares with 50,000 in Q4 of 2019. We also continue to add buildings in our fulfillment and logistics network, with square footage growing about 50% year-over-year in 2020. And unlike in a typical year when new buildings are mostly in place by the end of Q3, this year, a significant number of them came on line in Q4 as our teams pulled out all the stops to be ready for customer demand. And it turns out we needed that capacity in order to fulfill the strong customer demand in Q4. Revenue for the quarter was $125.6 billion versus our guidance range of $112 billion to $121 billion.

You'll remember that we kicked off the holiday season early for customers with Prime Day in October versus its usual timing in Q3. We then saw strong seasonal holiday demand through Q4. Our Q4 results also largely reflect the continuation of demand trends we have seen since the early months of the pandemic, particularly as people are staying at home, including for household staples and other home products.

We saw sales growth across our major product categories, led by strong Prime member engagement. Prime members continue to shop with greater frequency and across more categories than before the pandemic began. Prime members also continue to expand their usage of Prime's digital benefits including Prime Video, and Prime Video channels.

Amazon Music launched podcast in September and in Q4 Prime members listened to millions of hours of podcasts each month. We're reaching more customers with our grocery offerings. In Q4, we had another strong quarter that largely reflects the continuation of demand trends from Q3. We saw strong growth in new Prime member sign ups. As demand remained strong in the quarter, the additional volume leverage helped to achieve higher-than-expected profits.

We saw strong order volumes throughout the holiday season, with good sales growth, not only in our peak sales days, which include Prime Day, Black Friday and Cyber Monday, but also throughout the remainder of the quarter. We had good operational performance within our fulfillment centers and transportation network even as we added significant capacity.

Third-party sellers also stepped up as never before to serve customers. The 2020 holiday season was the best ever for small and medium-sized businesses selling in our store, with our worldwide sales growing over 50% year-over-year in Q4. Third-party units represented 55% of total paid units during the quarter, the highest 3P unit mix we've ever had since we invited businesses to sell on Amazon more than 20 years ago.

Lastly, AWS' efforts were headlined by our ninth annual re:Invent conference. This is the first time in our history that the event was virtual and free. We had over 570,000 registered attendees during the three-weekss-long event. AWS continues to innovate at a rapid clip announcing more than 180 new services and features at re:Invent across compute, storage, database, machine learning and more. You can read more about this in our earnings release.

The team also announced significant customer momentum with new commitments and migrations from JPMorgan Chase, Thomson Reuters, ViacomCBS and Twitter, just to name a few. We continue to see companies meaningfully growing their plans to move to AWS.

In Q4, AWS saw a continuation of strong usage and revenue growth. AWS added more revenue quarter-over-quarter and year-over-year in any quarter in its history, and is now a $51 billion annualized run rate business, supporting millions of active AWS customers. And just as they have all year, sellers, partners and employees across Amazon stepped up to deliver on unprecedented customer demand, and for this, we remain extremely grateful.

And today, we announced that our founder and CEO, Jeff Bezos, will transition to the role of Executive Chair in the third quarter this year, and that Andy Jassy will become Chief Executive Officer at that time. Those of us who know Andy are excited to see him take on this greater responsibility. He is a visionary leader, a great operator, and he understands what makes Amazon such a special innovative company.

We're also excited that Jeff will retain a very important role at the company that he founded and has guided for over 25 years. He has created a culture of invention and innovation that drives us every day, and we remain bound by our common focus and obsession on the customer.

With that, let's move on to Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question is coming from Heath Terry with Goldman Sachs. Please proceed with your question.

Q - Heath Terry {BIO 3406856 <GO>}

Great, thanks. Just wanted to dig a bit deeper into the incredible acceleration that we saw in the international business. Obviously, pandemic aside, wondering if you could help us sort of break down the pieces of what drove that. Specific regions, specific initiatives that drove that level of acceleration. And then just on the AWS business, a bit more of a housekeeping question. Could you -- would you mind going through just where the backlog stands and any material drivers of change in the math to the extent there has been any?

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure. Thank you, Heath. I would start on international segment results. So yeah, it was sequential growth jumped from 33% in Q3 to 50% in Q4. Part of that is the timing of Prime Day. But in the US, it was less pronounced, sequential growth was 39% to 40% in the North America segment. So there was something else going on in international in Q4.

I would attribute it really to the government actions and lockdowns that we saw, especially in the UK and Europe. I think that increased during the quarter, unfortunately for the economy. But it did drive higher sales on our site. We also saw probably a larger impact of moving Prime Day from Q3 to Q4 in international, just because it's a little more nascent there. It's still ramping up, but very strong performance.

A - Dave Fildes {BIO 20638976 <GO>}

Yes, Heath, this is Dave. On the backlog number, it's at about $50 billion at the end of the year, the bounce, and that's up about 68% year-over-year. So, that's one component of all the great work that AWS is doing. And of course, you're seeing some continued very strong growth, strong usage and revenue growth there, $51 billion annualized run rate business. So it's continuing to grow at a meaningfully larger absolute dollar rate than others out there. And we're really pleased with the growth we're seeing there. It's -- as Brian touched on the opening, just a lot of good engagement and innovation coming out of the re:Invent conference as well.

Operator

Our next question comes from Eric Sheridan with UBS. Please proceed with your question.

Q - Eric Sheridan {BIO 22465717 <GO>}

Thanks so much for taking the question. Just following up on some of the comments you made between the release and in your opening comments, Brian. I wanted to know if we could tease out how we should be thinking about the level of investments that are needed between the mix of fulfillment versus where you want to go on the customer service side and the logistics and delivery side as you look out to '21?

And obviously, it's going to be a very different year in '21 than what we saw in '20, where you saw a surge in demand and a lot of capacity constraints that have opened up as the year goes on, and there'll be sort of tougher comp dynamic as you get into the middle of '21 as you're lapping against that demand impact in '21. And how do we think about the levels of investment you'll make, where those investments are going to go and what that means for sort of confidence on the demand side over the medium to long term? Thanks so much.

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure, Eric. Obviously, we had a large investment last year, group fulfillment capacity, including transportation, 50% year-over-year. I would say that -- and spent -- I believe it's $44 billion on CapEx. Yes. The -- we're still working through our plans for 2021. I think the added complexity here is the range of outcomes. Certainly was the case in 2020, but even for 2021, there's a lot of question as to continuation of COVID conditions, comping against prior year sales. Sometimes, there are things in there that are definitely wouldn't repeat probably number of gloves we sold and hand wipes and things like that or computer monitors that people set up their home offices. But there's also a lot of people who engage more strongly with Prime benefits in 2020, and we think that will have lasting impact, both from the purchase frequency, amount they purchased, use of digital benefits, etcetera.

So we are going to have to build probably for multiple scenarios. And in an FC world, it's hard to turn that capacity on quickly. So it generally means you may have to overbuild to protect the customer experience. On transportation, we made large investments in our transportation network in 2020. That work is not done yet. We have a lot of continued expansion. So we see that over -- definitely through 2021. I can't quantify it right now. I'm only giving guidance through Q1 right now. And we are still working through some of the plans as we do this time of the year.

And then infrastructure will remain a healthy part of our investment as well. We're supporting an AWS business that is growing at a rapid clip, both in usage and in revenue. We're expanding regions globally and have a lot of upside in that area, talking with customers on their transition plans to the cloud. So we definitely do not want to run out of capacity, and we work to not do that. So there could be a risk of forward spend in 2021 as -- due to the uncertainty, but we'll see as we move through the year.

Operator

Our next question comes from Doug Anmuth with JPMorgan. Please proceed with your question. Doug, your line is open. Please proceed with your question.

Q - Doug Anmuth

Sorry muted I apologize. Brian, hoping you could talk more about the importance of AMZL, Amazon Logistics during the holiday season, if you could talk more about percentage of packages, perhaps shift from your fulfillment centers and then where this can go in coming years. And then also a quick comment on the COVID cost. You mentioned $2 billion in 1Q. Just curious how you think about it more on a full year basis, what some of the puts and takes can be there? Thanks.

A - Brian Olsavsky {BIO 18872363 <GO>}

Yeah. So yeah, for the full year, we're -- again, $11.5 billion was our gross cost for 2020, $4 billion of that in Q4. We see a step down to closer to $2 billion in Q1. That compares with a $600 million spend last Q1 as the pandemic just started, and we started to react in March. And obviously, those costs escalated in Q2 and Q3.

So if we look at the core components of that, right, there's productivity that -- productivity drags from hiring so many new employees and also having physical separation. That gets better all the time. It was exasperated a bit in Q4 because of all the new hires that we brought on, over 170,000 new people. That should moderate. That's why one of the reasons that we see a step down in Q1 versus Q4. It's volume-related and also mix of employees. After that, we're going to have to see. Again, hopefully, the vaccine gets going. Everyone gets vaccinated, and we return to normalcy. That would be very helpful on a lot of fronts for everybody. And if not, there will be a continuation of some of these costs.

I will say that while we are very transparent or try to be on the costs that we're seeing, specifically around COVID, there are some positive things happening that counteract a bit of that, not the least of which is the top line volume in 2020. We grew 37% on an FX-neutral basis versus growing 22% in 2019. And the fact that we've been running pretty full out since arguably April, but definitely into May, has created operating efficiencies of its own. The counterbalance, the physical separation and the training of new employees. So there's a lot of moving parts in here. We were able to save about $1 billion in transportation cost this year -- excuse me, in 2020 as virtually all travel was shut down and our sales teams found new ways to reach customers. We'll see how that develops over time.

Marketing, although it got back to probably more healthy levels in Q3 and Q4, definitely was lower in Q2 as we worked through some capacity issues. And it wasn't fruitful to invest in marketing when you're having trouble hitting existing customer demand. So there are a lot of moving parts that I'll try and be as transparent on as I can be during the quarter. And this -- again, Q1 is -- we're seeing about $2 billion of absolute dollar COVID costs. And Dave can take the AMZL question.

A - Dave Fildes {BIO 20638976 <GO>}

Yes. And just as we talk about AMZL, Amazon Logistics, right, that we think about that, in terms of the facilities, it's a lot of the middle-mile and the last-mile elements that are under our management and control. And so you're talking about sort centers at the middle-mile delivery stations and the last mile. We talked that on a square footage basis, 2020 was a big build year for us. Our footprint grew around 50%. About half of that incremental square footage fit into that sort of AMZL transportation side of the equation, which is a higher mix than what you've seen of any incremental add in a year. It's a higher mix being 50-50 than what you've seen from us in the past.

So a lot of focus on that there, both because of the desire to pre-pandemic increase the one-day delivery capabilities for Prime members. But also, as we've moved through this year, it gets us a little bit more -- or much more certainty on being able to get items from point A to point B. So we finished the year where now more than half our packages, both US and worldwide, are handled through AMZL, and a lot of work going into that.

And so we'll look to expand and continue to build on that with our AMZL offerings, but as we've said in the past, our delivery partners, independent delivery partners that are out there, the UPSs, certainly overseas carriers as well, are an important part of that, and they'll continue to help us scale that up and build up that offering and make it better.

Operator

Our next question comes from John Blackledge with Cowen. Please proceed with your question.

Q - John Blackledge {BIO 7387802 <GO>}

Great, thank you. Two questions. First, the other revenue line saw a significant acceleration in 4Q. Just curious if you can talk about or provide some further color on the advertiser demand that you saw in the fourth quarter. And then second on grocery was a big driver for Amazon in 2020. Just general thoughts on grocery. And I think you mentioned in the release, seven communities rolled out AmazonFresh grocery stores. How are they performing? And should we expect a broader rollout?

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure, John. Let me start with the other revenue question. Yes, we saw strength in other revenue, grew 64% in Q4 versus 49% in Q3 and 41% in Q2. That is primarily advertising. That's the majority of it. I would say that there has been a recovery in advertising spend as the year progressed. The fact that we moved Prime Day into Q4 has an impact there because, again, it carried a lot of clicks and eyeballs into Q4 for that time period.

But I want to highlight a lot of great work being done by the advertising team. Their main principle is to help sellers, vendors, authors, publishers and partners use our tools, navigate them as fluidly as possible and add value both for them and for our end customers who get to see and find and discover new and different products.

There are some things that are adding to the efficiency of advertising. We're now using a deep learning model to show more relevant sponsored products and had success with that. We're improving the relevancy of ads shown on the product detail pages all the time. And we've seen rapid adoption of video, creative format for sponsored brands. All these things help tick up the conversion and the productivity of the advertising, both for the seller or vendor involved and also for Amazon and makes it a more productive experience for the customer as well.

A - Dave Fildes {BIO 20638976 <GO>}

John, on the grocery point, yes, we've got a couple of different formats. I think there's -- the Go Grocery has a couple of locations open and off to a good start, a lot of interest in those and the technology that those offer as well as the AmazonFresh location. So we're at about eight locations open, and I think in the neighborhood of about half a dozen locations are confirmed to open. So, more to come on those.

There's other kind of tangents and footprints on that. The Go stores, there's around 25 of those that are out there that also important part of that is food. So you see us -- it's -- we've talked about this a bit in the past, is we're doing a lot with online grocery and branching out from Whole Foods and some of the other physical footprint locations and being able to offer that convenience, but we also think that being able to offer some innovative physical store grocery offerings like these go and fresh, some of which have some pretty cool self-checkout capabilities and implement some of the Just Walk Out technology qualities are really some interesting areas that are resonating with customers. I think they appreciate that not just in times of maybe not wanting to have physical contact with everyone in the store, but just even beyond that, the general convenience of being able to move throughout the store and check out more efficiently than you otherwise would in a traditional retail environment. So excited to do more on that front.

Operator

Our next question comes from Brian Nowak with Morgan Stanley. Please proceed with your question.

Q - Brian Nowak {BIO 16819013 <GO>}

Thanks for taking my questions. The first one, I'd be curious to hear about any of the learnings you had from the strength of the international business in 2020 and how you think about the right types of investments to make in that business in '21 and beyond to ensure you retain as many of these users and wallets as you've gained throughout 2020.

And the second one, understanding the comments, Brian, earlier about sort of investments going forward. Maybe just talk to us a little bit about one-day. Are these investments you're making, could they get you back to a one-day product in later part this year or in '22 when the world normalizes? Or are these assets you're putting in place now not able to be deployed from a one-day perspective when overall e-commerce slows down a little bit?

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure, Brian. Let me start with your international question. I think the biggest learning is that if we can move 2021 volume into 2020, it creates good leverage for us. And it's kind of what we saw. There was essentially a doubling of the growth rate versus probably the going in time -- rate for 2020.

Now again, that was a very hard volume because of the COVID restrictions and issues with our workforce, keeping our workforce safe and everything else. But I think what you saw was some very high leverage on that model that overcame some of the more fixed costs that we're seeing in the Prime benefits. So we pre-invested, as we've discussed in the past, in things like video and devices and other elements of the Prime offering, now grocery, you're starting to see. And we've added those Prime benefits ahead of probably the curve that you would have seen in North America.

So that has always created a bit of a drag on operating income, that as well as investments in new geographies, the investment in India, the investment that we've made over the last two or three years that are in places like the Middle East, Turkey, Brazil, Australia, most recently, Sweden and the Netherlands in 2020. So, there's a lot of moving parts in the international segment. But you're starting to see the benefit of the higher volumes and with it, higher advertising as well that we expected and we expect over time. And we'll see the growth rate is going to have the same challenges year-over-year that perhaps we'll see in North America we're going to have a race between lapping things that may have been onetime in nature in 2020 versus accelerating Prime membership and Prime members' purchases, purchase frequency and adoption of digital benefits.

So we'll see what that looks like in 2021. Very happy with the performance in 2020. And really, hats off to the teams in many countries around the world who are all dealing with the same issues that we were in North America.

A - Dave Fildes {BIO 20638976 <GO>}

And I know this is a bit of an offshoot, but I just think it's worth mentioning it fits in the AWS business, but we're continuing to see strong growth from AWS around the world as well. And there's a number of international located customers out there like MercadoLibre and Zalando and others that we've listed in there that are great customers for us. So we're working on that and really looking to support that just globally.

And I mentioned this before, but re:Invent, it was a great way to bring a lot of those folks from around the world together virtually and free. And typically, we've recorded the revenue for re:Invent from ticket sales and sponsorships. If you account for this COVID anomaly this year of it being virtual and free, AWS' year-over-year revenue growth, if you look at it, actually accelerated adjusting for that from the third quarter to the fourth quarter. So, a lot of fun innovation, good innovation coming out of that event that we're excited to talk more with customers about.

A - Brian Olsavsky {BIO 18872363 <GO>}

And then your question on one-day, I believe it was whether our investments will be consistent with establishing higher and higher levels of one-day. Yes, definitely. And we've been doing that throughout the year, and it's been getting better. In fact, we had a lot of examples of deliveries right up to the last minute on December 24th in the United States for holiday gifts. So the one-day has been getting better, and it's -- the issues in 2020 was essentially around capacity and volume and getting things out the door and being able to then hit a shortened time period.

So it wasn't that we were delaying or slowing down the shipment itself. It was the time taken to get through the warehouse and handle backlog of demand. So as the year progressed, we did see that get better and better. We do forecast that it will get better. I'm not quantifying this for you. I realize that. But I think you can generally notice wherever you're particularly are, whatever geography you are, some cities are back probably to one-day levels that they saw or even better pre-pandemic. Other areas that may have other dynamic issues are still working their way out of backlogs and volume issues. But when they -- the dust settles and as we open up more and more capacity, you'll see greater and greater 1-day percentages for our Prime shipments.

Operator

Our next question comes from Justin Post with Bank of America. Please proceed with your question.

Q - Justin Post {BIO 3469195 <GO>}

All right, thank you. Great. A couple. First, obviously, the Jeff Bezos announcement is quite important. I think Jeff Wilke is also retiring. Can you talk a little bit if you expect any changes to Amazon, how we should think about that? And then maybe Dave Clark is taking over retail. Talk a little bit about that.

And then secondly, obviously, the backlog is really strong in AWS, up 68%. The margins did come down a little bit quarter-over-quarter to 28%. Can you talk about the deals, how pricing is in the cloud segment? Is it remaining robust? And any reason the margins came down a little bit quarter-over-quarter? Thank you.

A - Brian Olsavsky {BIO 18872363 <GO>}

Sure, Justin. Let me start with your comments on the CEO transition and then the consumer CEO transition. I think they're both examples of what are highly effective succession planning processes at Amazon. The Board of Directors obviously takes that very seriously. It is an annual discussion and probably more often on succession plans, development of key executives, expanding the number of key executives, etcetera. And you see the byproduct of that as we expand the S team as we, five years ago, set up the two-CEO structure where Jeff Wilke was CEO of Consumer and Andy Jassy was CEO of AWS. We have strong single-thread leaders on devices, Amazon or -- Video, including Amazon Studios, Advertising. So I think there's a lot of bench strength within Amazon; and generally, we do try and push the decisions down in the organization as we scale, especially internationally as we try and do things consistently globally, but recognize local differences in our model.

So having said all that, succession planning is super important. The example you saw with Jeff Wilke, Jeff announced in the fall that he was stepping down to pursue some other goals and interest that he has outside of Amazon. He had been here over 20 years, had been super pivotal in our development of our consumer business, our culture, the development of layers and layers of leaders. And one of them was Dave Clark, who has, over the last five-plus years, really been charged with developing some very fundamental things for our Company: the expansion of the fulfillment center network, the expansion and creation of our transportation capacity, grocery delivery and the grocery plan, a lot of other things. But Dave has -- had been great leader in his own right. So when Dave -- or, excuse me, when Jeff Wilke decided to retire in the fall, it was a natural transition to Dave Clark. And that just occurred in January, and they're wrapping things up in the next month.

So that's a successful example of succession planning and a successful transition. Same thing for Jeff Bezos' role. And I will reiterate that Jeff is not leaving. He is getting a new job. He's going to be Executive Chair of the Board, super important role. The Board is super active and important in Amazon's success story. And Andy has been here since 1997.

He is not only a visionary leader. He's a strong operator as I said. And he's got a great track record of developing multiple things and businesses within Amazon, not the least of which is AWS, which is arguably the most profitable, important technology company in the world.

So that's just a flavor on the insight on how it works. We're very happy to see both Jeff and Andy get new perspectives. So Andy has a chance to put his imprint on Amazon. He is certainly going to carry through the culture and the vision and the invention factory that Amazon is and will take that to the next level.

Jeff will be the Executive Chairman of the Board. He will be involved in many large one-way-door issues, as we say, one-way doors, meaning the more important decisions, things like acquisitions, things like strategies and going into grocery and other things. So Jeff's always been involved with that, and that's where we'll keep his time focused on -- or he'll keep his time focused on in his new role.

So very excited all around to see the ability to have a strong transition to Andy in Q3. We'll be working on backfilling the AWS role, and we'll talk more about that in the future.

But for now, today is about Andy and Jeff Bezos.

A - Dave Fildes {BIO 20638976 <GO>}

And Justin, just on your AWS point, I mean, like I've mentioned before, AWS growth rate is strong. The factors we've talked about in the past continue to be in play. We're improving infrastructure planning to meet the capacity needs given the growth we're seeing. More broadly, our results reflect that balance between the investing, the price reductions, driving cost efficiencies. And the margins are going to fluctuate quarter-to-quarter depending on those factors to the extent we are investing in new regions and some other elements.

A few discrete things that aren't probably new but just to call out, the driver of the reduced impact from the change in the useful life of the servers. As you recall, we amended the server useful life at the beginning of the year from three to four years, and so we saw some benefit to the AWS margins and the broader margins in total. When we look at that, the impact does diminish throughout this year. So, when we increased it beginning in January, the benefit from this change in Q4 was about $538 million. That's down from $634 million in Q3. So that gives you some sense of it's coming down. That's the total amount that's allocated amongst the segments, but the majority of those figures I just gave do relate to AWS because significance of the server assets going to that segment. And again, that impact's going to continue to taper down over time, for example, into Q1 of 2021.

One other element is just FX impact. That's always going to hit us to some degree, but AWS customer billings are probably primarily denominated in U.S. dollars. The cost, though, if you think about it, many of the costs are going to be for build-out in local currency for data centers and the people that work there and power and what have you, so there's a bit of a foreign exchange difference there. And that happens to be this time around a little bit bigger. We saw an unfavorable impact of about $96 million to the AWS margin this time around for FX, so just another point to call out there.

You mentioned the backlog, too. Look, I think that's one data point amongst many as you look at AWS, but I think we're really encouraged by just general large enterprise business adoption is continuing to do well as they're choosing AWS as a tech provider and speeding up innovations. You saw a long list of the many companies that we've announced arrangements with in the past 90 days. So, really excited to continue to build onto that.

Operator

Our final question comes from Ross Sandler with Barclays. Please proceed with your question.

Q - Ross Sandler {BIO 15948659 <GO>}

Hey, guys. Yeah, just going back to the topic of shipping cost inflation. This is one of the few lines that's kind of variable and kind of increasing a little bit faster than the other fixed costs. And Dave, you mentioned that over half the orders are now going through Amazon Logistics worldwide. When do you expect that rate of inflation per order to level out a little bit because of these efforts? And if you look at the cost curve in places like the UK where -- or in London, where you have well over half on your own last-mile delivery, are you starting to see leverage there? Any comments on that? And thanks a lot.

A - Dave Fildes {BIO 20638976 <GO>}

Yeah. On that -- this is Dave. I think it's not -- I won't give a forward kind of guidance mix or what that levels off like. Some of the step-up in costs and disparity -- or the bigger gap, I should say, versus the unit growth rates that you're seeing there, there's a few factors. But I think this is Q4. We did add on a lot of new capacity as I said. It came on later in the year into Q4. More of it was in kind of that transportation arm, and so the costs associated with that would be going to that trans cost piece. So, that's one of the factors, along with the fact that we're continuing to try where we can to focus on improving one-day. And that varies region to region with all the kind of challenges of COVID that have gone on this year. But that's a goal of ours, is to get back to where we were in terms of one-day unit mix and continue to build onto that. So that'll be something to keep an eye on as we move into 2021.

Thanks for joining us on the call today and for your questions. A replay will be available on our Investor Relations website for at least three months. We appreciate your interest in Amazon, and we look forward to talking with you again next quarter.