Amazon.com, Inc. (AMZN) Q3 2021 Results - Earnings Call Transcript

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Q3: 2021-10-28 Earnings Summary

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EPS of $6.12 misses by $2.78 | Revenue of $110.81B (15.26% Y/Y) misses by $784.89M

Amazon.com, Inc. (NASDAQ:AMZN) Q3 2021 Earnings Conference Call October 28, 2021 5:30 PM ET

Company Participants

Brian Olsavsky – Chief Financial Officer

Dave Fildes – Investor Relations

Conference Call Participants

Justin Post – Bank of America

Mark Mahaney – Evercore ISI

Doug Anmuth – JPMorgan

Brian Nowak – Morgan Stanley

Eric Sheridan – Goldman Sachs

Dan Salmon – BMO Capital Markets

Ross Sandler – Barclays

Brent Thill – Jefferies

Operator

Thank you for standing by. Good day, everyone, and welcome to the amazon.com Q3 2021 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'll be turning the call over to Director of Investor Relations, Dave Fildes. Please go ahead.

Dave Fildes

Hello, and welcome to our Q3 2021 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 2020.

Our comments and responses to your questions reflect management's views as of today, October 28t, 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 maybe materially affected by many factors, including fluctuations in foreign exchange rates, changes in global economic conditions and customer demand and spending, labor market and global supply chain constraints, 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 impacts of the COVID-19 pandemic on our operations, including those discussed in our filings with the SEC. Our guidance also assumes, among other things, that we don't conclude any additional business acquisitions, 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

Thank you for joining us today. Let me first start by reiterating and expanding on a few comments that Andy made in our earnings release. We are now reporting our results for the seventh quarter since the pandemic began and we're especially proud of our employees for both their response to the unprecedented customer demand we have experienced, as well as for their implementation of many safety procedures to create a safe work environment.

During this period, we have continued to earn the trust of our customers, especially our Prime members, who have increased their annual purchases and their use of Prime benefits over the last 20 months. We've also seen strong growth in our advertising products, as vendors and sellers have embraced our ability to build their brands and to reach customers just as they are considering their purchases. And AWS has seen a reacceleration of revenue growth as customers have expanded their commitment to the cloud and selected AWS as their cloud partner.

As a result, Amazon 's Q3 revenue of $110.8 billion represented a two-year compounded annual growth rate of 25% versus a pre-pandemic growth rate in the low 20% range. We're grateful to our customers who have put their trust in us. However, there have certainly been challenges to overcome since February of last year. We've nearly doubled our operations capacity in the past two years to keep up with customer demand.

We've incurred billions of dollars in additional cost to keep our employees safe and to support testing and other COVID-related costs. And we have grown our global headcount by 628,000 employees in the past 18 months and are recruiting for more, including more than 150,000 in the U.S. to support Q4 seasonal demand. This demand for labor has recently coincided with the shortage of available workers, particularly in the United States. It began in Q2, but it really started to impact our operations and cost structure in Q3.

It's lead to wage increases and sign-on incentives, as companies compete for workers, as well as inconsistent staffing levels in our operations. In addition, disruption to the global supply chains and inflation in the cost of materials such as steel and services such as trucking have also raised our cost of operations. We estimate the cost of labor, labor-related productivity losses, and cost inflation to have added approximately $2 billion in operating costs in Q3, particularly in August and September.

Our Q4 guidance range anticipates that these costs will approach $4 billion in Q4 as we see a full quarter's impact of these effects and a higher seasonal unit volume. Specify in Q3, we saw nearly $1 billion of inflationary pressures, primarily tied to wage increases and incentives in our operations. Our average starting wage is now over $18 per hour, with an additional $3 per hour depending on shifts in many locations and sign-on bonuses that can be up to $3,000.

In addition, we saw inflationary pressures in raw materials and services, as I mentioned, particularly in steel and third-party trucking. We also saw over $1 billion of cost tied to loss productivity and disruption in our operations. In Q3, labor became our primary capacity constraint, not storage space or fulfillment capacity. As a result, inventory placement was frequently redirected to fulfillment centers to have the labor to receive the products.

This resulted in less optimal placement, which leads to longer and more expensive transportation routes. In short, our operations are normally well-staffed and optimized to be in-stock and to deliver to customers in one to two days. Labor shortages in supply chain disruptions upset this balance and resulted in additional costs to ensure that we continue to maintain our service levels to customers.

As you look to Q4, we've incorporated this nearly $4 billion of added costs into our operating income guidance range. In addition, we have a nearly $1 billion year-over-year increase in Q4 for spend to support our digital media content efforts, including video, music, and games. We recently launched New World, a multiplayer online PC game, and we're delighted with the response and engagement. New World has become the highest played new game this year on Steam.

Moving to video content. Prime Video has a compelling lineup of live sports, including the UEFA Champions League and Ligue 1 soccer in France, as well as NFL Thursday Night Football in the United States. And we have a great lineup of original series to look forward to, including the Wheel of Time, Lord of the Rings, and Citadel and new seasons from Jack Ryan, The Marvelous Mrs. Maisel and The Boys. We're excited to add this content to our Prime benefits and increase the value of our Prime membership.

Q4's guidance also includes an estimated $1 billion year-over-year negative impact from lower fixed cost leverage in our fulfillment network. Recall that we saw very high unit volumes in Q4 of last year, and then our fulfillment centers were running at close to 100% capacity as we work to add physical capacity to match demand. As we're now back to having more normal Q4 fulfillment capacity and have even brought forward 2022 capacity into 2021, our operating leverage drops compared with last Q4.

Our revenue guidance for the fourth quarter reflects the current trends we are seeing, including the lapping of our Prime Day Event in October of last year. We are dealing with labor risks and supply chain interruptions like many other companies, which increases our range of potential outcomes in Q4. Consumers have started to return to pre-pandemic spending patterns, increasing the mobility and spending more on travel and services in Q2 and Q3. But we're appreciative that the incremental demand that came our way during the pandemic has remained and that we're continuing to grow on top of that. We're all set to make this a great holiday season for customers.

Last quarter, we discussed the physical capacity we were adding to meet customer demand. We made strong progress in Q3 to build and open new facilities. And as a result, for the first time since the pandemic began, we're no longer capacity constrained for fiscal space in the network. September alone, we brought online more than 100 new buildings in the United States, including fulfillment centers, source centers, and last-mile delivery stations.

For the year, we expect our 2021 footprint additions to exceed last year's buildout, which was also significant. Put this in perspective, we are on track to double our fulfillment network over the two-year period since the pandemic's early days. A lot of this increased capacity supports our FBA sellers. Third-party sellers and the products they offer remain an important strength of our offerings for customers, representing 56% of total paid units sold in Q3, that's up from 54% in Q3 of last year.

And we're working with these partners, most of whom are small and medium-sized businesses, to build an even stronger offering. We recently hosted Amazon Accelerate, a U.S. conference for selling partners, where we introduce new tools and capabilities, including local selling, which enables sellers to start or expand their multichannel offerings by providing both in-store pickup and fast delivery to nearby customers and global selling tools to make it easier for U.S. third-party sellers to offer their products worldwide.

I'll finish with a few highlights regarding two fast-growing areas with strong profitability profiles. First, we saw continuation of strong usage and revenue growth in AWS, with revenues accelerating to 39% year-over-year in Q3, driven by a broad base of services and customers.

There are number of areas we're excited about, but let's focus for a moment on our efforts in machine learning. Customers of all sizes and across all industries are using AWS as the preferred cloud provider for machine learning services. We've been investing in this area for several years, offering an extensive set of machines learning services, including ones that can be applied to common business problems, like Amazon Connect for contact center intelligence, or Amazon Kendra for intelligent enterprise search.

We recently launched solutions specific to industries, including industrial machine learning services, as well as Amazon Health Lake to help healthcare and life sciences customers seamlessly transform their data across disparate sources to understand and extract meaningful medical information. And Amazon Sage maker continues to help customers scale their use of machine learning to core workloads, making it one of the fastest-growing services in AWS history, with tens of thousands of active external customers using it every month.

We also continue to see strong interest in rapid adoption of our custom silicon and AWS design Graviton2 processors, delivering customers up to 40% better price performance than current X86 processors. Moving to Graviton2 means little to no code changes so that customers can quickly and easily migrate their workloads to access the best price performance in Amazon EC2.

Last but certainly not least, Amazon Advertising continues to grow quickly, representing the significant majority of other revenue, which grew 49% year-over-year in Q3. We're seeing strong adoption across Amazon vendors, sellers, and authors, as well as brands that don't sell in our store, particularly as we've built out our streaming TV offerings. Of course, advertising only works if we make it useful for customers. And when we create great customer experiences, we deliver better outcomes for brands.

The team also recently hosted unboxed 2021, our annual conference for advertisers and brands, where we shared some of our newest solutions to help companies connect with their customers, measure the impact of their advertising, and grow their businesses. As we shift into Q4, we're heads down, focused on delivering a great experience for our customers this holiday season. we are committed to make the necessary investments in both people and capacity to bring more items in-stock and to deliver them quickly to customers.

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

Question-And-Answer Session

Operator

Thank you. At this time, we will now open the call up for questions. We ask each caller to please limit yourself to one question. [Operator Instructions]. Thank you. Our first question is coming from Justin Post with Bank of America. Please proceed with your question.

Justin Post

Great. Maybe I will ask about fulfillment capacity. You said your capacity is up 2x since before the pandemic and I've got units up around 55% on a two-year basis. So just wondering, is the capacity needed per unit going up as you speed up delivery times and try to get to one day? And then second, are you in really good shape for next year? And could you be ahead of plan for next year and kind of cut down the investment there? Thank you.

Brian Olsavsky

Yes. Hi, Justin. On your first question about whether we've -- comparison of doubling the fulfillment capacity to the unit growth. Keep in mind also that our fulfillment capacity also includes our transportation delivery capacity. And in the last two years, we've also greatly ratcheted up our ability to deliver ourselves through NCL, and our percent of units that we deliver through MCL is over 50% of our units globally.

So that's a big -- that's a driver as well. I'd also say that while we've been chasing really demand for last two years, we've been doing it is, as I said, we're running about 100%, pretty much all of last year. We are just now getting caught up on space for inventory and inventory is being brought in to support the holiday. And if you look year-over-year, well, unit’s growth is, as you say, closer to 8% in Q3. The cubic -- inventory cube is up close to 40%, both in North America and internationally.

So, there's like the second shoe that's dropping of getting the fulfillment centers back in stock, especially for sellers and especially as we head into holiday. So that's a -- I think that capacity, the amount of space we have for inventory is also going up probably at a higher rate than our unit ship right now. Your question about whether it pulls forward from next year, we're not forecasting into next year.

We do see that we will -- we expect growth, and as I mentioned on the last call, we think that the growth will be suppressed for the four quarters that end middle of Q2 next year, but we expect -- just as a comp versus 2020 just because of the 40% growth we saw last year. But we expect the long- term trends to be strong in this business. We're investing in such -- as I mentioned, the two-year CAGRs, I do that just so you can kind of judge pre-pandemic versus today.

We see strong growth even off base of last year, which was strong. So, we'll see next year on CapEx, and certainly for the foreseeable future, our capacity constraint is actually labor, which is new and not welcome. That's what we've tried to articulate here today. And we are hoping that that rectifies itself through Q4 and into early 2022.

Operator

Our next question comes from Mark Mahaney with Evercore ISI. Please proceed with your question.

Mark Mahaney

Great. Two questions. First, any color around those international losses in the quarter that was large achievement by Amazon standards, that $900 million? And then secondly, talk about the - you've been spending -- so you've doubled this fulfillment capacity. I think they're really kind of catch up to demand, but now I think like you're getting ahead of it. And as you roll out, you get close to one day promise that you worked up two or three years ago pre-pandem.

And as you start rolling out, super same-day delivery or what you call sub one day delivery. Talk about the incremental demand, do you think that that could unlock into the extensive which you're investing against not only to catch up to demand, but trying to liberate future demand if you get my point, thank you.

Brian Olsavsky

Yeah. I definitely do, and I'm glad you brought that up because I didn't include it in my last answer. But yes, we have unfinished business on the one-day promise side. We were ramping that up nicely in 2019 and in the first quarter of 2020 before the pandemic. We're still not back to levels that we saw pre-pandemic. We're getting closer. We feel again that labor constraints have not helped us close the gap there.

But we don't want to be as good as -- just as good as we were before the pandemic. We expect that to increase in 2022, and we're going to plan accordingly. And I think you start to see the difference in the growth rate before and after that one day. I won't forecast it too much, but we do -- we did see pick-up and we saw really that we got into the consideration set for more purchases. When something's available in one day or less, now you really don't have to go to a store even if you need it very quickly.

So, it just opens up more ways for us to serve our customers, especially our Prime customers. On your comment about international, yes, you're right, it was a larger loss than in prior quarters. In fact, we had flipped to positive operating income through the pandemic. A lot of that was again getting two years of volume growth on top of a one-year's -- current year cost structure.

There's also a bit of a slowdown just in content and other things, although we're building that, we would have built it at a higher clip. But the long-term trends remain the same in international. It's a group that has a very different life -- we're in different stages in different countries. The established countries of Europe and Japan are further along, obviously, and they perform closer to the North America results. We have new countries, we've added a lot in the last few years.

The investments in Brazil, the Middle East, Australia, and adjacent countries of Poland and Sweden within Europe. So those are all important investments, but they start as an investment. And they -- we build over time and we front-load a lot of Prime benefits in those countries, especially things like video. We find video as a really strong, excuse me, attractor of customers and it's a gateway to Prime in a lot of those countries. So, the models a bit flipped as versus what we saw in North America, just because we added video later in the game.

But we like what we see and we see the actual the hours watched in the percent of Prime members who watch video is actually higher in a lot of the countries, the new countries that we're getting into. So, we're - as we said, we're going to make money long-term in international. Right now, it's a bit of an umbrella that catches a lot of different countries in different stages. We're happy with both the established countries. They are also seeing, however, the pressures that we're seeing in United States on labor and cost and disruption from supply chains. So, can't forecast this any further at the segment level, but just want to give you a little color.

Operator

Our next question comes from the line of Doug Anmuth with JPMorgan. Please proceed with your question.

Doug Anmuth

Thanks for taking the question. Brian, just curious, how have you fared in pulling holiday shopping earlier thus far this quarter? And to what degree can that help ease some of the impact? And perhaps, what did you learn there last year from having Prime Day in 4Q? And then can you just also talk a little bit about the drivers of AWS acceleration and how you think about the margin profile with more contribution from enterprise deals. Thanks.

Brian Olsavsky

Sure. Yes. Let's start with the holiday shopping. Yes, you're right. Last year we -- as we look back, we used Prime Day to pull a lot of holiday shopping forward. And people knew that delivery capacity across all retails was going to be tight, so it was more distributed to the quarter. Obviously, that works better for us than to have it all hit in a few concentrated weeks around Cyber Monday and Black Friday and the week before and 2 weeks after. So operationally, it's easier to perform when the volume is spread out.

You are seeing a lot of promotional activity from us in October. Again, trying to do what we did last year, it's just pulled some demand to get people to buy and to buy early because that's to their advantage. Although we're preparing to serve people throughout the whole quarter, we feel we've done a good job of lining up inventory's middle commitments that are larger than normal. We've looked at getting more container capacity, we've been successful in that.

We've accessed new ports and parts of entry into U.S. So, we're doing everything we can, granted it's at a cost penalty in many cases, but we are -- we feel good about being able to serve customers this Q4. Love it in October, but we will take it in November and December as well.

On AWS, the acceleration, I would -- again, I would say that what we're seeing is again, a lot of customers accelerate their journey to cloud based on the pandemic. Some of their spending was suppressed in 2020 as they -- it's different, some companies were booming. Disney, Zoom, Netflix, others that were more travel-related were suppressed in their demand.

Then I think there's a general level of recovery across a lot of our customer base. We're expanding our customer base into a lot of different areas. A lot of new different customers, we had many new products. I highlighted a few of our machine learning products, so we feel really good about the acceleration in growth. We know there were some suppression last year, but it was -- the growth last year was still in the 28% to 32% versus the 28% to 33% range through on an FX neutral basis through most of the year.

On the margin side, the margins are going to be -- they're not going to fluctuate over time. There's a lot of moving parts. There is a lot of extensions of contracts and long-term commitments, which are great for our business and great for customers. So, there's negotiated long-term deals, there's also a lot of investment in new capacity in new regions to service high usage.

We're certainly adding -- continuing to add to our sales force and marketing teams. And then the counterbalance on that is how well we run our data centers, what efficiencies we get, what cost reductions we get. So, it's always going to be varying. We like where we are and that forecast forward, but again, they are apt to change, but we're working hard to keep them high and well passing through benefits and efficiencies to customers in lower pricing.

Operator

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

Brian Nowak

Great. Thanks for taking my questions. I have two, Brian. The first one, I wanted to ask a big picture question about the retail business. I know there's a lot of extra costs moving through the system now, but maybe can you just talk to us, big picture about any changes or factors that have changed the Company's view about the long-term profitability, the long-term return on invested capital of the retail business now, as opposed to at the end of 2019? Then the second one is on the physical stores.

You have quite a few different formats and experiments going on the physical stores. Talk to us about areas where you've seen the most positive results from physical stores where you're pleased as opposed to areas where you still see room for improvement in the physical store strategy. Thanks.

Brian Olsavsky

Sure. Let me let me start with your comment on the -- we'll call it the core retail business. We're very bullish on the retail business. In fact, it's impossible and not productive to even try and separate advertising from third-party from retail. It's all to us part of a flywheel where we service customers. We do it in an efficient way and we earned their trust in their future business. We fight that battle every day.

And we look to expand the Prime program to build that flywheel. We looked at new products and services like grocery and video and music and the list is long. So, when you look at retail, certainly expensive right now, especially with the cost side laid out in Q3 and Q4, for us to service that business. However, we have other monetization vehicles, including advertising that if we do well, become a benefit to customers and to advertisers at the same time.

That's what we work on. So that is an important part of our profitability structure. It's tied directly to happy customers and customers who are engaged in buying things. So, we don't separate those two. We do for some reasons, we want to make sure that we're understanding where our customers or our profits happened to be.

But we do realize it's all part of the same customer offering. And we'd like to return on investment flywheel. We do, I get to see investments in warehouses trucking programs, new offerings that we do in new country expansion. We segment those as much as we can into discrete decisions.

And then we track them and make sure that not only are we delighting customers or delighting shareholders in the long term. So, we feel good about that. Certainly, the cost of fulfillment in the last few months and what we've forecasted into the next quarter are not -- we're happy about, but we see ourselves as the shock absorber, absorbing a lot of the costs so that the customers not impacted, and sellers are not impacted. And again, it's just quite limited options in the short run to impact your cost structure. Most companies would delay shipment or incur -- add fees or something. We don't think that is customer - centric nor productive.

And we will get through this period and then we are committed to getting our cost structure down. And Brian, on that second question around the physical store strategy, we of course, we have a number of different brands in store types, Whole Foods being the largest that's got over 500 locations. But we've got Amazon 4-star, Amazon books, the fresh grocery stores, Amazon go and Amazon pop-ups.

Each one of course has a name and the types of products they offer has its own differences. But I think when you step back, we've said that we want options for customers to be able to shop online and in store. And I think you're seeing that. Probably most predominantly with the grocery offerings in the Whole Foods footprint that we've got out there, and why I get customers choice and offer them the combination doing that online and in store option, whatever works best.

And the goal around this is really raised the bar for what customers can expect with this omni -channel experience. So, if you like the hybrid model and we're working on continue to evolve on a lot of interesting in-store experiences that will resonate with customers. We know that customers like to have a choice to be able to do that.

So, some of the things that we continue to be excited about and do a lot of work on are things like the Just Walk Out Technology, that's been in our Amazon Go stores and is now moving into some over Amazon Fresh stores. Just really eliminates, again, one of those things that people may not realize is such a hassle or deterrent to shopping, waiting in line, and eliminating something has really been possibly received by customers as they use that technology.

Another one, just as you enter these stores, there's technology we have now in a little over 70 of our physical retail stores like Amazon one, which is a contactless way for folks to enter stores using their palm to identify. So that's in retail stores and Whole Foods stores. And so, keep looking for us to roll that out.

And I think with these technologies too, there's opportunities beyond the Amazon physical store footprints that I mentioned. You're starting to see Just Walk Out going in sports and large arena-type environments in Amazon One. It's just some good locations in both those technologies. I'm excited to employ them in Climate Pledge Arena here in Seattle. So, look for us to keep iterating on those and finding other new innovative ways for customers to enjoy unique shopping experience.

Operator

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

Eric Sheridan

Thanks so much for taking the question. Maybe if I can come back to two on the Q4 cost structure. Just in terms of framing it almost against a year-ago period, could you talk a little bit about the 4 billion of COVID costs from a year ago, the elements of EBIT contribution from things like AWS and third-party and advertising, and maybe help investors better understand the bridge between some of the elements of headwinds to profitability in Q4 versus Q4 a year-ago. I appreciate all the comments upfront.

Didn't know if we could go a little bit deeper and then all of the costs you're incurring late Q3 into Q4, how should investors think about a permanent nature to that cost structure versus a transient nature of the cost structure, either as an output of the macro environment or the unit environment in Q4? Thanks so much.

Brian Olsavsky

Sure. Thanks, Eric, for your questions. I will start with the second one. So how should we think about the cost permanence? Certainly, on the labor front there we estimate about half of the cost is permanent based wage. The other half is incentives that we currently offer to attract workers. We're going to have seen.

I think it's going to -- we are going to have to adjust and work to lower our costs going forward, especially on things that we procure that may have gone up in price in the last few months. Mostly on talking about is third-party things like trucking and steel for film in-center construction. So, we will be working on our cost structure for a while. If you're trying to do the bridge for Q4 year-over-year, a couple of things I would say, yes, the COVID costs are lower by $1.5 billion versus last year.

Eric Sheridan

Certainly, yes.

Brian Olsavsky

Yes. If your Q4, excuse me, the 4 billion is going to be pure variance year-over-year. That's what we've identified, 2 billion roughly of labor inflation and 2 billion of operational disruption mostly through higher transportation costs. There are a couple of other items year-over-year. If you remember last year, we were running at nearly 100% capacity.

That's not the ideal for us, but it has the benefit of being highly leveraged and cut out other costs, but it's highly leveraged mathematically on a cost per unit shipped. As we get more into a normal buffer, so that we can handle swings in volume, especially as we get closer to holiday cutoffs. We generally run with more slack in the system and we were in a good fortunate for returning to maybe a more of a normal profile and space.

This Q4 issues, again on labor, so there's that, there's the increased cost in digital content, it's combination to video games, music, audible. So, some rather large items year-over-year, having given you a complete bridge, but that's what we're seeing. Yeah. I think that's right, 4 billion of the items you mentioned, 1 billion higher in content. Marketing costs, they were suppressed last year. For much of the year, you're starting to see those grow throughout 2021.

Operator

Our next question comes from the line of Dan Salmon with BMO Capital Markets. Please proceed with your question.

Dan Salmon

Hey. Good afternoon, everybody. I have 2 questions. First, you mentioned growing customers use of Prime, more original programming coming, and the services you offer, continuing to expand. Do you see this demand, this new content the new services having expanded to a point where a price increase for the Prime subscription begins to make sense? And then second, you mentioned the unboxed event earlier this week, number of new ad products announced there. Which among them do you expect to be most impactful to the overall advertising business? Thanks guys.

Brian Olsavsky

Sure, thanks, Dan, let me start with the first question on Prime. So yes, we're very excited about the current program in this coming out in the back-end of this year, and also the prospect for 2022. We think it's a real step-up in options and quality and volume for our customers globally in the video side and very excited about it.

And you're right, it does have a lot of value. I've nothing to discuss or announce around Prime price increases. But we always looked at that. We looked at the value where it's generally a country-by-country discussion. We looked at the value we felt we looked at the time since our last price increase because less strategic factors involved obviously, but major obvious to build the value of Prime. And that's what we work on, and Video's pic part of that. Yes.

And, Dan, on the second piece for advertising, I think we still see there's a lot of opportunity in the biggest bucket, if you will, of the current advertising revenue run rate. And that's when a sponsored activity that we're able to offer up to customers, continuing to find ways to just measure that information and be able to serve sic credibly and quickly improve on that for advertisers out there. So, a lot of work and it's still being done on the team there and being able to add value for customers.

I pointed there's a lot of excitement in the of video advertising area, I know we've talked about in the past. It's growing quickly. It's not the biggest piece of that run rate that you see in there, but growing well, and it's like just the technology we're able to develop some of the relationships that we've been able to foster with things like live sports, the opportunities with the Fire TV device in the video community and where we can reach folks through those areas, it's really exciting.

IMDb TV, our ad-supported channel is existing really well. People really enjoy that. We recently expanded that beyond the U.S. for the first time to the UK. So, a lot of really good and interesting ideas and a lot of opportunities to grow in different ways with video.

Operator

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

Ross Sandler

Hey, guys. Just 2 for me. So, you guys are always beating the rest of e-commerce on speed of delivery across a wide set of skews, but there's a bunch of these new companies cropping up that are wiring up speedy same-day delivery for a lot of products from either their own warehouse or from various other retailers.

Do you view that as a threat? And you have same-day offering in 15 cities, does your same-day leverage your existing fulfillments or footprint or do you have to rethink the approach to get the speed down to that 30-minute window or wherever it's going to go? And the second question is just New World was a huge. So just any thoughts, high-level on the overall strategy within gaming? Thanks.

Brian Olsavsky

I'll take the second question first related to games. I think as we mentioned at the top, really excited to get New World out there to more customers' hands and to have some really good momentum a d engagement coming out of the gate with customers there and some of the offerings like the Steam platform.

And Twitch as well. But if you step back, we've said for a while now that gaming is obviously one of the fastest-growing industries in the entertainment space. And we find and see a number of different ways to be able to offer folks our RAYU services. So, we developed and published games for customers through Amazon Games, which developed that New World.

We're also leveraging the Flywheel -- the Amazon Flywheel, offering some exclusive and free content as part of Prime gaming, so as part of Prime benefits. You've got AWS and utilizing AWS services stream games with them, our Luna -- Amazon Luna offering. And then as I mentioned before, building this large, engaged, passionate gaming community online with

Twitch. So, I think again, to my point about a lot of really interesting ideas when we're talking about video and the advertising space, it's a lot of different areas that can interrelate, serve different communities within the gaming area. And so, we're going to keep working on that, keep building and listening to customers on the games we've launched, and keep pushing forward with an exciting slate in the future. And then your first question on what I'll call ultra-fast delivery and other options in the market.

We like our model, it's a rapidly evolving space and obviously we'll customer obsessed, but we also competitor aware. We like the business that we have. We have over 170,000 products that our Prime customers can get within two hours from Amazon Fresh, Whole Foods Market, and other stores that participate with us in over 5,000 cities and towns. So, we're well on our way to providing ultra-fast delivery for things that require ultra-fast, or things like groceries and others.

And we see that expanding, but there will be room for multiple winners in the space. And also, as we say there's -- you'd have to have a cost structure and a logistics network that will pay for the delivery over time. So, we see it as part of an offering that we offer to customers that ranges from 2 days to 1 day, to 2 hours or 1 hour, in some cases. So, we like to meet customers where they are, when they need things, and we're working on speed consistently.

Operator

Our final question comes from Brent Thill with Jefferies. Please proceed with your question.

Brent Thill

Thanks. On the advertising business, I'm curious, given some of the concerns in the supply chain, have you seen a pullback on the ad side? So far, is that something that you're factoring in for the fourth quarter?

Brian Olsavsky

No. We're actually -- again, we're seeing strong growth. Obviously, the Prime day is always a really great advertising event as well. And then you saw a little bit of that in Q2 when we had Prime Day in Q2 this year and we're lapping Prime Day from Q4 of last year. So, there might be comparable issues, but as far as the strength of the offering and the differential between the growth of the advertising business versus the unit growth, we think we're really resonating with advertisers.

We're given new products, new ways to advertise, new ways to highlight the brands. Just resonating with sellers as well for the same reasons. And Fildes, it's additive to the customer experience. It helps customers find curated selection and also see brands that they may not have otherwise seen.

Operator

Thanks for joining us today on the call and for your questions. A replay will be available on our Investor Relations website for at least 3 months. We appreciate your interest in Amazon, and we look forward to talking with you again next quarter.

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