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# Amazon.com's (AMZN) Management on Q2 2020 Results - Earnings Call Transcript

Jul. 30, 2020 10:42 PM ET | **Amazon.com, Inc. (AMZN)** | 5 Comments | 8 Likes

## Q2: 2020-07-30 Earnings Summary

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EPS of $10.30 beats by $8.70 | Revenue of $88.91B (40.23% Y/Y) beats by $7.50B

Amazon.com, Inc. (NASDAQ:AMZN) Q2 2020 Earnings Conference Call July 30, 2020 5:30 PM ET

**Company Participants**

David Fildes – Director-Investor Relations

Brian Olsavsky – Chief Financial Officer

**Conference Call Participants**

Eric Sheridan – UBS

Mark Mahaney – RBC

Brian Nowak – Morgan Stanley

Doug Anmuth – JPMorgan

Ross Sandler – Barclays

Brent Thill – Jefferies

Aaron Kessler – Raymond James

Justin Post – Bank of America

**Operator**

Thank you for standing by. Good day, everyone, and welcome to the Amazon.com Q2 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, David Fildes. Please go ahead.

**David Fildes**

Hello, and welcome to our Q2 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, July 30, 2020, 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 the 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**

Thank you for joining us today. I'd like to start by thanking and recognizing the contributions of hundreds of thousands of Amazon employees and delivery partners and hundreds of thousands of small and medium-sized businesses who are working hard to serve our customers all around the world in these uncertain times.

Amazon's second quarter was another highly unusual quarter. As I mentioned on our last earnings call, we began to see a significant increase in customer demand beginning in early March, and demand remained elevated throughout Q2. Strong early demand in groceries and consumable products continued into Q2, while demand increased during the quarter in our other major product categories like hardlines and softlines.

At the same time, we continue to focus on stepped up employee safety, particularly in our fulfillment and logistics operations, to help ensure the safety and well-being of our employees and partners. In Q2, we incurred more than $4 billion of COVID-related expenses, getting products to customers and keeping employees safe. The largest portion of these costs related to compensation for our frontline employees, including higher hourly wages through the end of May and a more than $500 million Thank You bonus in June.

We also experienced productivity headwinds in our facilities. This included changes to over 150 of our processes to provide for social distancing as well as costs to onboard and train over 175,000 new employees who are hired to meet the higher customer demand. This $4 billion also included investments in personal protective equipment for employees and enhanced cleaning for our facilities.

Our consolidated revenue and operating income significantly exceeded the top end of our guidance range. Strong top line performance was driven by increased consumer demand, led by Prime members. We continue to see high Prime member engagement throughout the quarter. Prime members shop more often with larger basket sizes. Worldwide streaming video hours doubled year-over-year driven largely by Prime video. We're reaching more customers with our grocery offerings.

Online grocery sales tripled year-over-year. Existing Prime member renewal rates improved, and the Prime member growth rate accelerated both in the U.S. and worldwide. Our 3P sellers, who are largely comprised of small and medium-sized businesses, also stepped up to help make more selection available for customers. And as a result, these small and medium-sized businesses have seen significant growth in their sales.

Our third-party seller services revenue grew faster than online stores revenue in Q2, with strong growth in both fulfillment by Amazon and merchant fulfilled or MFN seller sales. Third-party units continue to represent more than half of overall unit volume, helped by improved quarter-over-quarter growth in active sellers. We are more committed than ever to supporting the success of the hundreds of thousands of small and medium-sized businesses to sell their products in Amazon stores.

We were able to meet this heightened demand because we were also able to open up more fulfillment network capacity as the quarter progressed with faster delivery across more selection. I'd point to a few capacity improvements that have allowed us to enhance throughput. First, our regular headcount grew 34% year-over-year as of the end of Q2 and continues to grow. We welcomed more than 175,000 new employees in March and April, many of whom were displaced from other jobs in the economy.

As we've seen demand remain high, we are in the process of bringing 125,000 of these employees into regular full-time positions. I would also note that Amazon has created more jobs over the last decade than any other company, and we are proud that we're continuing to create good jobs with industry-leading wages and great benefits during this challenging time. Our combined number of regular and seasonal employees is currently over 1 million. We've also been able to expand the output in our existing facilities as we've had time to implement, learn and iterate on the new process paths we put in place.

Additionally, as a reminder, Q2 is typically our lightest volume quarter for the retail business. That's not the case this year, but what that's meant is that we can flex into space normally used for second half peak demand. This led to strong operating leverage in Q2. As we move towards peak in the second half of the year, we will ramp up our space needs even further, and we'll be adding significant fulfillment center and transportation capacity in the second half of the year.

Turning to AWS. This is now a $43 billion annualized run rate business, up nearly $10 billion in run rate in the last 12 months. Customer usage remains strong, although growth varies across industries as a result of the COVID-19 crisis. Lastly, I'll touch upon our Q3 guidance, which we provided as part of our earnings release. A few additional data points on this guidance. We expect to incur more than $2 billion in COVID-related expenses in Q3 to help keep employees safe, including continued investment in social distancing, PP&E and testing. Costs are expected to be lower than in Q2 primarily due to better cost efficiency at the high demand levels we are seeing.

In addition, I'll remind you that the third quarter is typically when we open the majority of our new fulfillment network capacity, and we expect the same this year. We continue to invest meaningfully, including $9.4 billion in CapEx and finance leases in Q2 alone, an increase of 65% year-over-year, primarily driven by investments in our fulfillment and logistics footprint. Once these buildings open, they are a headwind to profitability as they ramp up and we prepare for Q4 peak.

In 2019, we increased network square footage by approximately 15%. This year, we expect a meaningfully higher year-over-year square footage growth of approximately 50%. This includes strong growth in new fulfillment center space as well as sort centers and delivery stations. We expect the majority of this capacity to come online in late Q3 and into Q4.

Lastly, we plan to host Prime Day in Q4 this year rather than Q3 as it has been in prior years. The one exception is Amazon India, which will host Prime Day on August 6 and August 7. In summary, we know that people are relying on online shopping more than ever during this unprecedented time, and we are working hard to add capacity to serve customers. We're extremely grateful to our employees across Amazon for continuously stepping up to meet the needs of customers.

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

**Question-and-Answer Session**

**Operator**

At this time, we'll now open the call up for questions. We ask each caller, please limit yourself to one question. [Operator Instructions] Your first question comes from the line of Eric Sheridan with UBS. Please proceed with your question.

**Eric Sheridan**

Thanks so much for taking the question. Maybe I could just dive in on the normalized trends you're seeing as you exit June and get into July. You made a push into essentials and deemphasized non-essentials, as we talked about in the last earnings call. Where are we in terms of the company getting the mix between essentials versus non-essentials right in terms of offering to customers? Where are you in terms of returning to normal on next-day and two-day shipping initiatives to drive Prime? If there was any color on the state of affairs with either of those by geo or region of the world, that would be great. Thank you so much.

**Brian Olsavsky**

Sure, Eric. Thanks for your question. So first, on the trend. So if you remember, we exited Q1 and spoke at the end of April. We had taken a lot of steps in March and April to, first, limit the incoming non-essential products into our warehouses, and then we reversed that or eliminated that decision in mid-April. So we started to normalize on our channel mix. And I would say, as we moved into late April and early May, we expected that because a lot of the sellers can toggle between MFN or FBA sales that we would see MFN drop as FBA picked up.

But to a large extent, MFN remained strong even as FBA picked up. So we had a very favorable mix, if you will, coming from March on. It started to normalize a little bit more to normal levels towards the end of the quarter, but MFN still remains high. On the product side, a lot of what we saw in March and early April was sales of consumables and groceries and safety items. And we talked a lot about the fact that, that was coming at pretty much zero cost – or excuse me, zero profit when you factored in the COVID-related costs.

We've got better on our cost structure, and we also resumed a more normal mix in, I'd say, early part of May. So since then, I would say it's getting closer to what we call a more normal mix. Demand is still super high. What we're seeing on – it's driven by Prime members and Prime member engagement. They're shopping more often. They have larger basket sizes. There's still a heavy component of grocery – online grocery sales tripled year-over-year in the quarter as we added capacity there.

So well, there's shifts in the mix based on what customers want. It's looking a little more normal, and it's staying at a very high level. On one day, we realize that our first priority is to keep our employees safe, and the second is focus on getting our capacity increased. Once we've done that, we are working very hard to get faster shipments. And we've seen the one-day and two-day recover through the quarter, but it's still probably considerably behind the going in rate before any of this happen. So we'll continue to work on that. But again, first priority is definitely keeping employees safe, and second is increasing our capacity.

**David Fildes**

Yes. And this is just David. I think just from a geographic perspective, Brian's opening comments there, a lot of these order trends and activity, you can see that both the North America and the International segment are growing well. So a lot of those kind of trends in category performances and first-party and third-party seller growth, whether it be merchant fulfilled or FBA sellers, we're seeing a lot of growth across the board, kind of similar-type broad trends when you think about the U.S. and North America as well as our international regions, in particular, our more established international regions.

**Operator**

Our next question is from Mark Mahaney with RBC. Please proceed with your question.

**Mark Mahaney**

Okay. So two, just a quick follow-up on Eric's question. Brian, when do you think you'll get back to par in terms of one day being one day? And then secondly, these profit levels are super high now. They're becoming super high at the company if you ex out the COVID costs. Is Jeff aware of how profitable the company is becoming? Is he happy about it? And I'm kind of being facetious, obviously, when I asked that.

But what I also want to ask really is when you think about new investment areas, and at the top of the list, maybe some new international launches are really building out some of the markets that you've – like India, Brazil and Mexico or the business-to-business operations, like there's a ton of new investment areas, and it seems like the Amazon historically, and I'm sure it's the same now, would be using this kind of revenue surge and really investing aggressively in these new areas. So just talk about that. I know you've got spend on COVID, but as you think about the next three to five years, you've got these really profit surges. How can you deploy those? Or how do you want to deploy those into some of the newer investment areas? Thanks a lot.

**Brian Olsavsky**

Sure. Thanks for your questions, Mark. First, on when we get back to par, we don't know yet. We're getting progressively better, but we're also balancing what is going to be very stepped up demand and capacity in Q3 and Q4. So if you look at our historic run rates and can see how big a quarter Q2 was, Q2 was actually higher revenue than Q4 of last year, which is unheard of. And Q3 is now forecast to be also higher than Q4 of last year.

So we've kind of moved the peak forward, and for different reasons, we're trying to, mainly, like as I said, first priority is getting – is making sure our employees are safe and that we continue to do social distancing and keep everybody safe and healthy. Second priority is getting capacity online because we do not have – in Q2, we generally have lower revenue. And in Q2, like I mentioned, we were able to use the excess capacity that did exist to serve the higher demand.

Now as we move into Q3, we're starting to – we need to build the inventory more for Q4, and we've run out of space. So we've got our hands full on that challenge, but we've got a really good team that's been working very hard probably since late February on this issue. And when you talk about profitability, we'll also mention that there are a couple of expenses that have gone down in the interim. Marketing, we cut marketing probably by about 1/3 in Q2 as – mainly because we're trying to manage demand.

It started to normalize and get back to somewhat normal levels in – at the end of Q2, but – and therefore, we'll see a higher level in Q3. But certainly, marketing costs were lower. You probably saw it in a lot of companies. Travel expenses have almost drawn to a halt. Meeting costs, even medical costs in some examples or in some cases have been delayed as people don't go to the doctor or don't go there as quickly. We think that will normalize over time.

And as far as investments, we've got a lot of investments already in play. So I don't think it's a matter of necessarily accelerating investment or – we're always looking for new investments that make sense to us. But during this time, I would say we've actually accelerated our ops investment. We pulled in capacity that we probably didn't think would be needed until 2021, maybe later. On grocery, we've also greatly expanded our grocery delivery capacity, and that's probably ahead of schedule.

**David Fildes**

Yes. This is Dave. Just to add to that, I think Prime is such a big focus, and some of the growth statements that Brian talked about at the opening of the call, whether it was strength in Prime membership and the acceleration we saw in the U.S. or worldwide or some of the usage stats like the grocery momentum or the doubling of video hours, for us, it's just another encouraging sign. We think there's still a lot more value we can add to that program.

And that's not just in the United States where we've got sort of a broader set of services than some of the other regions, but really focusing on supporting in some of those other regions. And so we've got places like Australia, the Middle East. We've talked about India many times, but a lot of focus on building that out. I think what's great about a place – all geographies with a place like India is we're really focused on digitizing the Indian sellers. A lot of micro, small and medium-sized businesses there. We launched some new features there to help support the digitization efforts with some of those brands and just a lot of work, great work being done by that team. They have some goals there around getting more sellers on board and hiring many more people as well. So a lot of focus there.

**Operator**

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

**Brian Nowak**

Thanks for taking my question. I have two. The first one, Brian, is going back to the investments, and you're often making multiyear investments for customers and customer offerings, and you're the man behind the capital allocation plan. I guess I'd be curious to hear about can you give us some examples of areas of investment that may have been pushed out this year because of shelter in place and the higher demand that you've been seeing? So what were areas where you thought you were going to spend more at the start of the year than you actually have now in the current 2020 plan?

And then the second one, the international strength, I appreciate the color on Europe and Japan. Nice to see the profitability. Maybe just talk to us sort of qualitatively about some puts and takes around your core international markets, Europe and Japan? And how to think about whether or not they could be more or less profitable than the U.S. long-term? Thanks.

**Brian Olsavsky**

Sure. I think you'll – starting with that second one. You'll notice that the International segment was profitable this quarter, and that's a great sign. It is heavily driven by the pickup in demand that we saw, as I mentioned, I believe, in multiple calls. What's going on internationally is we have some very healthy established countries that we've been in a long time. And we have probably accelerated their adoption of Prime benefits. We've pushed video and devices and music and other things to those countries probably earlier in the life cycle than you would have seen in the U.S.

So there's a bit of a forward investment on Prime benefits in many of those countries. But what you also see are investments in new countries. Obviously, India is the biggest one, but also, to a lesser extent, the Middle East, Brazil, Turkey and Australia are recent addition. So there's always an element of expansion going on there. Advertising is growing, so that's a good source of profitability. But if you look at what happened in Q2, it was essentially just the much higher volumes than we had anticipated or had on a run rate.

So our fixed costs were leveraged to the hilt. Obviously, we will add some capacity and things in transportation and fulfillment centers, but all other fixed costs were pretty much leveraged on that higher demand. The UK in particular, was very strong because there's probably more stay-at-home orders and the way the economy was developing in the UK. We had a very, very strong quarter there.

So I would say that the surge in demand internationally also helped drive that profitable, maybe a little earlier than the trajectory would have shown. And I'm not sure that, that is going to continue for the next couple of quarters, but it's a good sign that we could leverage that. And a lot of the same trends in the U.S. were apparent internationally, higher Prime – more frequent Prime purchases and higher basket sizes. So all good signs, and perhaps we got a glimpse of the future on the demand curve.

Your second question on slowing investments. The list is very short on what we've had to slow down. It's mostly – it hasn't been done necessarily for cost reasons, it's been done for people reasons. The one I'd point to is studios. We've had to delay production. I think most studios have. And that's been augmented by some new things like our Amazon cinema where we're having first run movies.

And so I think in this time, when people want entertainment, people are having trouble creating new content across the board. And that's a bit of a challenge, but it's not something we're doing intentionally. We're doing it to protect the actors and film crews, and we think that's the right decision. As I said, a lot of the investments are being pulled in, especially on the upside and grocery delivery, same-store pickup. A number of whole food stores that you can pick up deliveries on tripled this quarter.

So the list is short on things that we're slowing down on, I would say. It's just we're adapting and probably looking at whether some things have changed and creating some things for the new environment, especially in the entertainment area.

**Operator**

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

**Doug Anmuth**

Thanks for taking the questions. I have two. Brian, first, just curious about your overall thoughts on how the e-commerce adoption curve has been shifted here over the next few years. And anything you can share around behavior for new and existing customers. And then separately, on AWS, the $43 billion run rate obviously slowed some in the quarter, but hoping you could comment just on the pace of IT decision-making in this environment, whether you're still impacted by some clients more highly exposed to challenged verticals? And due to those factors, is it possible that AWS can accelerate growth going forward? Thanks.

**Brian Olsavsky**

Yes. Let me start with that second one. Thanks, Doug. So in the AWS segment revenue, what we see are companies are working really hard right now to cut expenses, especially in the more challenged businesses like hospitality and travel but pretty much across the board. We're helping them. We're actively, with our sales force, looking for ways that we can help them save money. This includes things like scaling down the usage where it makes sense or benchmarking their workloads against our architectural best practices.

So that’s not going to help our usage growth in the short run, but it will help those customers save money. And we think that’s the right thing to do, not only for their success and so they can come out of this at a better shape but also for the long-term health of our relationship with them as an AWS provider. But we’re also seeing a lot of companies that are really wishing that they had made more progress on the cloud because they’re seeing how companies that are on the cloud can turn into a variable cost and either scale up or scale down depending on their particular situation.

They realize their on-premise infrastructure is not really flexible to go up or down. And especially in the time of sinking demand, it’s a big fixed cost for them. So we expect – we’re seeing migration plans accelerate. They’re certainly not going to happen overnight, but we see companies moving more in that direction. We think that will be a good long-term trend. And there’s certainly winners in this area right now, things like video conferencing, gaming, remote learning and entertainment. All are seeing usage growth. And it’s a bifurcated world out there.

So the – on your e-commerce adoption, I think it’s hard to tell. We’re super encouraged by the fact that grocery delivery has picked up, and that’s been accelerated versus what we would have thought. We certainly are glad to be there for our Prime members who are shopping more frequently and buying more. We do know that there’s reasons that there are other options are limited.

I mean there are always retail options out there, especially to go pick up in store, but less people want to go into stores perhaps now. So we’re going to have to see what is maybe a step-up in the curve and getting to a point quicker versus what are some onetime sales and things like – hopefully, things like masks and gloves and cleaning supplies in the fullness of time become onetime purchases, but we’ll see.

And sorry, your last point was on new customers versus existing customers. We’re seeing similar trends. We’re seeing good pickup in frequency and basket size for new members in Prime as well, certainly not the same as people have been Prime members for a number of years. But it’s encouraging. And as you saw, Prime growth retention has increased. We’ve accelerated the number of – the growth of Prime members, both in the U.S. and internationally. So that’s a good sign that we’re happy about. And we hope that, that has long-term ramifications.

**Operator**

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

**Ross Sandler**

Yes. Just a follow-up to that last comment. So the Prime behavior for international Prime members, you guys have talked about how like in the 16, 17 countries, the overall service levels are a little bit behind, selection is a little bit behind. So has the last few months in the pandemic closed that gap meaningfully in terms of GMV per Prime member for international versus what you see in the U.S.? Any comment there? And then on the 3Q guidance, you pushed Prime day for western markets into 4Q. So how much of the deceleration – it's obviously a really strong number for 3Q, but the growth rate is decelerating a little bit. Is that mostly from Prime Day? Or can you just talk about what kind of behaviors you're seeing right now as you go into 3Q? Thank you.

**Brian Olsavsky**

Right. Well, we ramped up through the quarter in Q2 and ended up with 41% year-over-year growth in FX-neutral – on an FX-neutral basis. A lot of those trends are continuing into Q3. You see our revenue range is $87 billion to $93 billion coming off of $89 billion quarter. So I would say that the – if you look at the growth rate, that translates into somewhere in the 24% to 33% growth rate in Q3. So I can't break out exactly the Prime impact because there's – but suffice to say, it's a big driver on why 41% growth in Q2 turns into 24% to 33% growth in Q3 on what turns out to be higher revenue volume.

And then on Prime behavior, it's – I can't really give you more on that because it is actually a very localized set of staff by country. In international, aggregate does not matter that much. And what I would say is, generally, what we're seeing is similar trends in international in response to COVID purchasing patterns. I wouldn't say it closed the gap. I said – I would say they both went up. And we'll see how it goes from there. I think there's definitely any differences in selection or differences in shipping.

There's a myriad of factors that go into a Prime member's decision to be a Prime member and to what they buy and what they use as far as our benefits that we give them. So I don't want to make too many sweeping comments on that right now.

**Operator**

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

**Brent Thill**

Thanks, good afternoon. I was curious if you could just expand on AWS. There was a little bit of a slowdown across the board and a number of the cloud numbers. I'm just curious if there's a common trend that you're seeing there. And perhaps just talk about the backlog. I know you've disclosed the backlog has been improving in the filings, but a little more color on AWS would be certainly helpful. Thank you.

**Brian Olsavsky**

Yes, sure. I'll give you the backlog number. It grew 65% year-over-year and 21% quarter-over-quarter. So that's healthy, and we have the average contract length is over three years for our AWS contracts. I would say contract volume and negotiations are strong and have maintained through this period. So it is – that's a good sign. It really does boil down to short-term versus long-term incentives here for a lot of our customers. They're – if you're in an industry that's been heavily impacted by COVID in the economy, you're looking for ways to save money and you're trying to do a click and we're trying to help in that regard.

And one of the best ways to save money long-term is to use the cloud, not only to turn it into a variable cost, it could be a fixed cost, but also to be able to take advantage of the partner network that we have, the security that we have and also the constant evolution of products and services that we bring to market.

**Operator**

Our next question comes from Aaron Kessler with Raymond James. Please proceed with your question.

**Aaron Kessler**

Great. A couple of questions. First, maybe just one of your competitors noted that growth was slowing in some markets that have opened up, I guess, probably more in Europe. Maybe just thoughts there. Are you seeing any changes in sort of the markets that are starting to open up? And just any commentary on the Zoox acquisition, how you kind of – can use that technology longer term as well? Thank you.

**Brian Olsavsky**

I imagine you mean on consumer business, countries opening up.

**Aaron Kessler**

Correct.

**Brian Olsavsky**

Yes. Well, we still see strong demand. So I don't have any particular color on that regard by country. We do think probably the UK was very – grew very strongly in Q2, and that, I believe, is starting to moderate a bit but still stronger than normal. So I don't want to go by country, but I think those trends will start to perhaps become evident. But the – from our vantage point, the Prime members still continue to order more frequently and in larger basket sizes.

**David Fildes**

Yes. And then, Aaron, just on your second question on Zoox, I mean, it's – there's not too much to say at this point. It's still pretty early, but I think it probably goes without saying it's a tremendously forward-thinking team, which resonates with us. And they really do kind of pioneer in that space, the ride-hailing space. So a lot of cool work they're doing, designing autonomous vehicles and focused on the passenger, right, in front of mind in that. So I think, again, just as we think about kind of the innovation components and commitments to solving kind of problems and challenges for customers, it's pretty exciting for us to be able to work with them and bring that vision to fruition in the years ahead.

**Operator**

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

**Justin Post**

Great. A couple of questions. Obviously, a great cost quarter on the leverage side. Any changes in e-commerce gross margins to call out? Is scale and getting size, improving gross margins or anything on the mix shift there that's interesting? And then secondly, we talked about a lot about one day investment last year. Obviously, the shipping times were impacted by COVID, but are you back to kind of normal times? And where are you on the one day investment? Thank you.

**Brian Olsavsky**

Sure. On one day, again, we're first prioritizing employee safety. We have a lot of effort in that regard. We've changed over 150 process paths. We've instituted social distancing, cleaning, temperature taking, both with our warehouse employees and also our transportation employees. So that's really still priority one. And second is capacity expansion, especially as we head into the second half of the year, which generally sees a step-up in volume even over the first half of the year. So we will – we are improving the percentage of one day. We're not back to where we were pre-COVID.

We don't think we're going to be back in the short run, but we will continue to improve it. And hopefully, it'll be less noticeable for our consumer base. On the gross margin side, it's very much a mixed bag right now. There's – before the COVID outbreak, the positives were generally AMZL costs – delivery costs were becoming more efficient. Advertising was – and AWS were certainly a strong component of gross margin increases. Product mix could go either way depending on the country. But as this COVID has played out, consumables and grocery, which are lower margin, have started to – have been a negative impact on gross margin. But the – we feel good about where we are.

Gross margin for the quarter was 40.8% and was down 200 basis points from last year. It's probably more tied to the addition of one-day shipping. And even if we didn't do as much one-day shipping as we've been doing post COVID, the costs of one-day shipping are already built into our structure. We've already reconfigured our network. We've already created the capacity to be able to ship. It's just a matter of whether or not we can get it out through the warehouse and to you in one day or not.

**David Fildes**

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