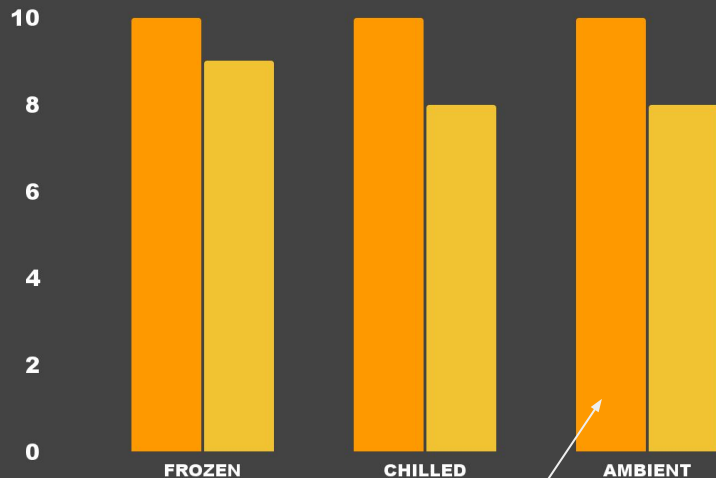


# Amazon Fresh Cost Strategy



# Free Prime delivery logistics are squeezing Amazon Fresh margins

Average Cost Per Unit (Cents)



3P



Free delivery = Margin squeeze



Frozen adds highest cost



Need more efficient mix

# Re-optimizing sourcing by product temperature can restore profit margins without slowing delivery

## Current Mix

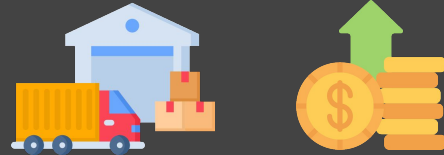


Mostly Hubs for all categories

- Higher control
- Higher cost
- Limited 3P use



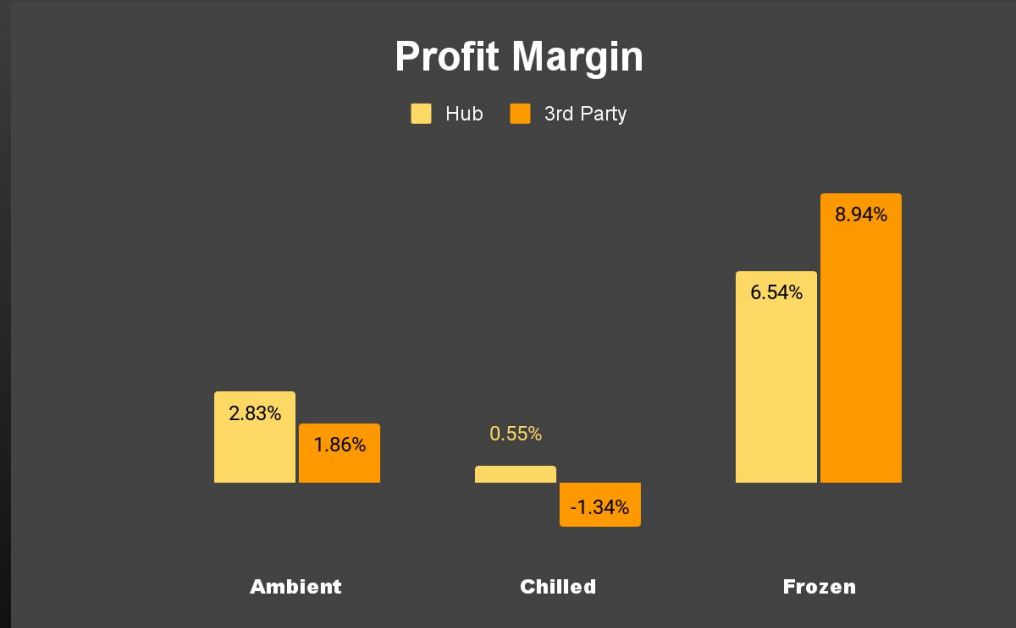
## Proposed Mix



Hubs for Ambient & Chilled  
3P for Frozen

- Optimized cost
- Balanced risk
- Same delivery

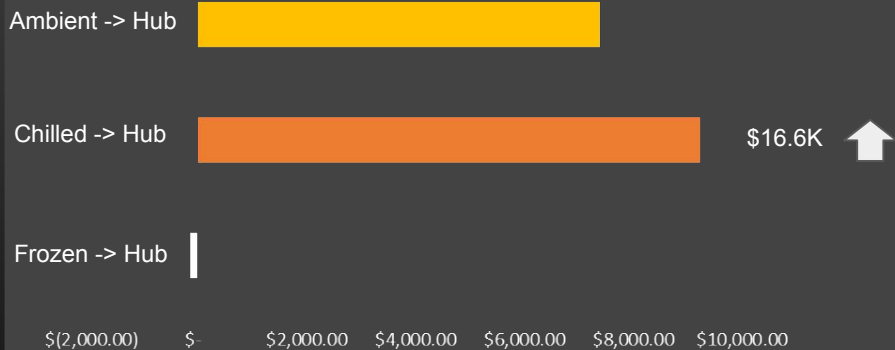
# Frozen Products show the highest difference in Profit Margin between Hub and 3rd Party Sourcing



- Both Chilled and Ambient products are cost inefficient when sourced from a 3rd Party
- Frozen products, are more profitable using 3rd party sourcing due to a better profit margin.
- The hybrid model that we are proposing, with Ambient and Chilled products remaining in Amazon Hubs, while Frozen goods become 3rd party sourced, will allow us to maximize profitability

# Prioritizing Amazon Hub fulfillment leads to an increase in profit, but possibly a slower delivery time.

Profit Change



Avg. Delivery Speeds (Hours)



Increase savings and efficiency through Amazon Hub





Shipping cost decreases moving from 3P to Amazon Hub by 1 to 2 cents



3P has quicker shipping speed on average, but greater variance (2.33 hours)

# Rebalancing Sourcing Strengthens Efficiency and Customer Satisfaction

	Operational Benefits 	Customer Benefits 
Amazon Hub	<ul style="list-style-type: none"><li>• Shorter replenishment cycles</li></ul>	<ul style="list-style-type: none"><li>• Ensures freshness</li></ul>
3rd Party	<ul style="list-style-type: none"><li>• Faster delivery for frozen goods</li><li>• Reduces strain on internal distribution</li><li>• Distributes to more locations</li><li>• Maintains variety for unique/local items</li></ul>	<ul style="list-style-type: none"><li>• Customers receive goods faster</li><li>• More customers served</li><li>• Customers have wider range of product choice</li></ul>

# Adopting a hybrid sourcing pilot will verify the efficiency and value of the new sourcing mix

## Next Steps:

1. **Launch:** 90-day pilot in top 5 delivery markets
2. **Monitor:** Gross Margin %, Delivery Speeds, and Customer Satisfaction
3. **Deploy:** Nationally if pilot proves successful

