**Why Amazon Is on a Warehouse Building Spree**

By [Danielle Kucera](http://www.businessweek.com/authors/733-danielle-kucera) August 29, 2013

For a company whose showrooms are all online, Amazon.com ([AMZN](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=AMZN)) spends a staggering amount on bricks and mortar. The e-commerce giant has invested roughly $13.9 billion since 2010 to build 50 new warehouses, more than it had cumulatively spent on storage facilities since its 1994 founding, bringing the total to 89 at the end of 2012. (It’s announced five more in the U.S. this year.) Amazon aims to be able to deliver most items the day they’re ordered, so it can keep rivals such as EBay ([EBAY](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=EBAY)) and Wal-Mart Stores ([WMT](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=WMT)) from peeling off customers. EBay offers same-day delivery in some cities, and Wal-Mart is moving more sales online. “What Wal-Mart and EBay are working on is, can they be faster than Amazon?” says Wells Fargo ([WFC](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=WFC)) analyst Matt Nemer. “It might not be the highest-margin sale in the world, but they can potentially get something to you in an hour.”

Amazon introduced its expedited-shipping program, Prime, in 2005. Prime offers two-day service for $79 a year, plus $3.99 or more per order for same-day or one-day delivery; non-Prime Amazon customers pay $8.99 and up for same-day delivery. But Amazon can’t guarantee top speed for most items or locations. To be fair, the same holds for Wal-Mart, which charges $10 to deliver an online order from one of its 4,700 stores within the day, and EBay, which charges $5 for same-day delivery from retailers including Target ([TGT](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=TGT)), Walgreen ([WAG](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=WAG)), and Best Buy ([BBY](http://investing.businessweek.com/research/stocks/snapshot/snapshot.asp?ticker=BBY)).

To help speed delivery, Amazon is building its warehouses bigger, though the company wouldn’t say how much bigger, and boosting its storage capacity with floor-to-ceiling shelves. “We now get about twice as much product in this building as we would have four or five years ago,” says Dave Clark, vice president of worldwide operations and customer service, standing in a new Chattanooga warehouse that occupies more than 1 million square feet. Software that can sort items by delivery date and optimize storage space has helped Amazon roughly double the number of items it can ship per facility, says Clark. The warehouses are operational within 10 months, down from two years before the building spree started. “We’ve standardized them in such a way that opening them and replicating them happens very fast,” Clark says.

Item storage, shipping, and delivery have become Amazon’s top operating expenses, jumping more than 40 percent a year from 2010 to 2012 and contributing to a $39 million loss last year. Building on pricier land closer to cities drives up near-term expenses. Costs will rise more as the company adds 5,000 full-time jobs in 17 U.S. warehouses to its 20,000 existing employees, along with 2,000 customer service workers (including some part-time and seasonal hires). Upstarts such as online grocery deliverer Instacart are moving in the opposite direction. “We don’t have to build warehouses, lease a fleet of trucks, or manage perishable inventory,” says Instacart Chief Executive Officer Apoorva Mehta, a former Amazon employee. Unlike AmazonFresh, which ships groceries in Seattle and Los Angeles, Mehta’s San Francisco-based startup guarantees delivery in less than two hours, using contract shoppers who drive their own cars to customers.

Amazon has a strong record of trading short-term losses for market share and sustained profits later, and investors are giving CEO Jeff Bezos the benefit of the doubt. Since the start of 2010 the company’s stock has more than doubled. With warehouses close to the top 20 U.S. metropolitan areas, Amazon could reach 50 percent of Americans with same-day delivery, compared with 15 percent now, says supply chain consultant MWPVL International. That would require 12 warehouses beyond those built and announced, MWPVL says.

As they expand, Amazon’s warehouses will become more efficient, says Clark. The company last year bought Kiva Systems, whose packing robots are already used by acquisitions Zappos and Diapers.com, and Amazon is bulking up its grocery business with more refrigerators and trucks. Like car models, Clark says, “We’ll very quickly incorporate what we learned this fall from the 2013 buildings and launch the 2014 model.”

***The bottom line:*** *To speed delivery and fend off EBay and Wal-Mart, Amazon has spent $13.9 billion on warehouses since 2010.*

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