



Amazon's Alexa Is a Multibillion-Dollar Business

Description

Amazon.com ([NASDAQ: AMZN](#)) recently unveiled a slew of new Alexa-enabled devices including new Echo smartspeakers, a set of truly wireless earbuds, a “smartoven,” and limited edition Alexa-enabled wearables — eyeglasses and a ring — for those who want to make a nerdy fashion statement.

But the most interesting reveal at Amazon's event may have been that “there are now billions of dollars flowing through the Alexa economy.” That's to say all those Alexa skills are bringing in billions of dollars for developers, and Amazon is keeping a considerable share of that revenue. Similar to how **Apple** splits up App Store revenue, Amazon keeps 30% of every Alexa skill sale.

Add on top of that the growth of [Amazon Music](#) from Alexa devices and the increased sales on Amazon's marketplace from orders placed through Alexa, and it's no wonder Amazon wants every device in your house and everything you wear to have Alexa built in.

Super-high-margin revenue

Net app store sales come with an extremely low cost. Amazon merely has to process payments, host the software, and provide a mechanism to discover and install new Alexa skills for its devices. At scale, those costs are extremely small, and considering Amazon already offers a big marketplace of goods, both physical and digital, it really doesn't have to spend much more money to add a few more items — i.e., Alexa skills.

Apple's App Store revenue has an estimated [gross margin of around 90%](#). Overall, the App Store adds around \$10 billion in annual gross profits for Apple.

True to form, Amazon remains relatively tight-lipped about exactly [how much consumers are spending](#) on Alexa skills. But by the most conservative definition of “billions of dollars,” users spend at least \$2 billion per year on Alexa skills. Amazon keeps \$600 million of that, and at an assumed 90% gross profit margin, it adds at least \$540 million to its gross profits.

Since Alexa skills are digital, there's practically no fulfillment expense — Amazon's biggest operating

expense. The company doesn't spend much marketing Alexa skills, but it does spend a lot of money marketing its devices. It's hard to tell whether that spending is impacted by Alexa skill store sales, since Amazon has other reasons for wanting to get [Alexa devices in consumer's homes](#). Overall, it's a good bet Alexa skill sales mostly end up flowing to the bottom line, let's say at least \$500 million based on the preceding estimates.

That currently accounts for just about 3% of Amazon's total operating income over the past four quarters, but it has plenty of room to grow.

Alexa skills on the rise

Developers are creating new Alexa skills at a breakneck pace. There are now over 100,000 skills for the platform. That's up from 90,000 in April and 80,000 in February.

What's more, Amazon is only just starting to invest more in its skills platform. It rolled out in-skill purchases over the summer in most geographies, providing developers with new ways to monetize apps without requiring payment up front. The freemium model has worked extremely well for mobile app developers where users can download an app for free but have to pay to unlock additional content or boosts.

In addition, Amazon is making it easier for average users to develop new Alexa skills with tools like skill Blueprint and skill Flow Builder. These tools reduce the level of coding experience necessary to add new functionality to Alexa.

Meanwhile, Amazon continues to sell millions of Alexa-enabled devices, and that number will keep growing as Amazon expands its product lineup and partners with new manufacturers. There's a simple equation behind the bevy of new product announcements Amazon just made: More users plus more Alexa skills equals more super-high-margin revenue.

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