



Amazon.com

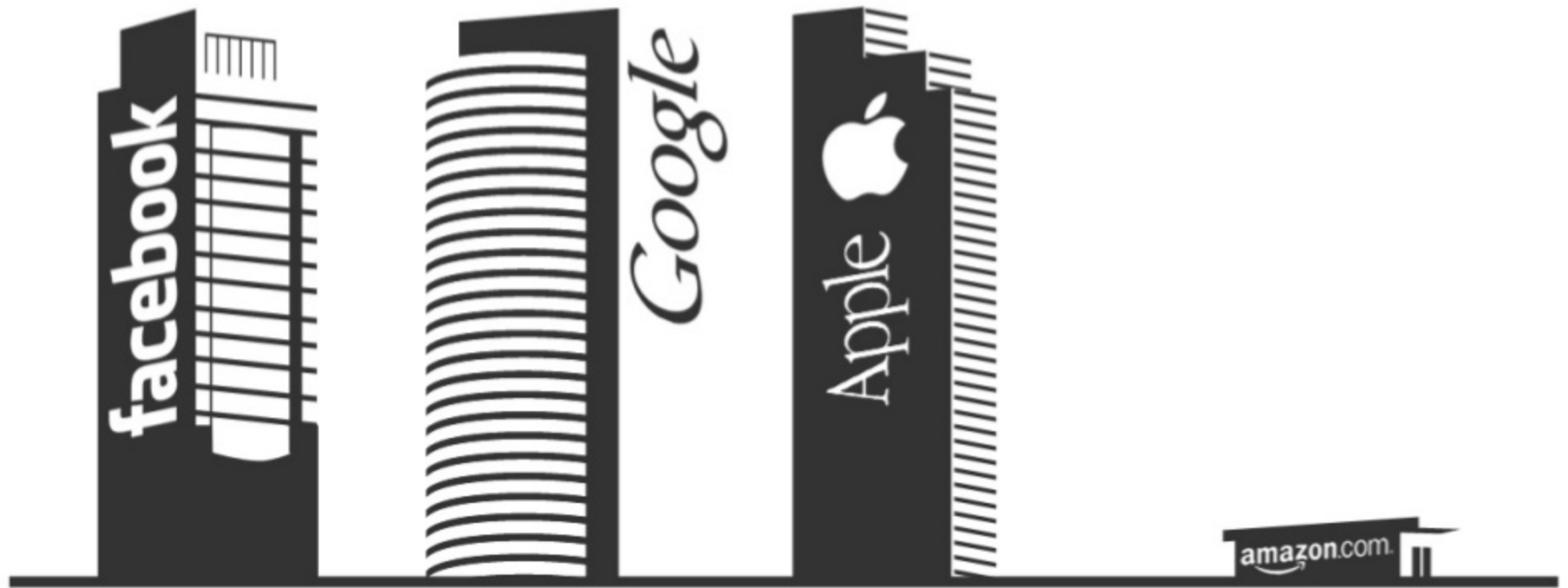
THE HIDDEN EMPIRE

Three digital engines to reshape and dominate retail



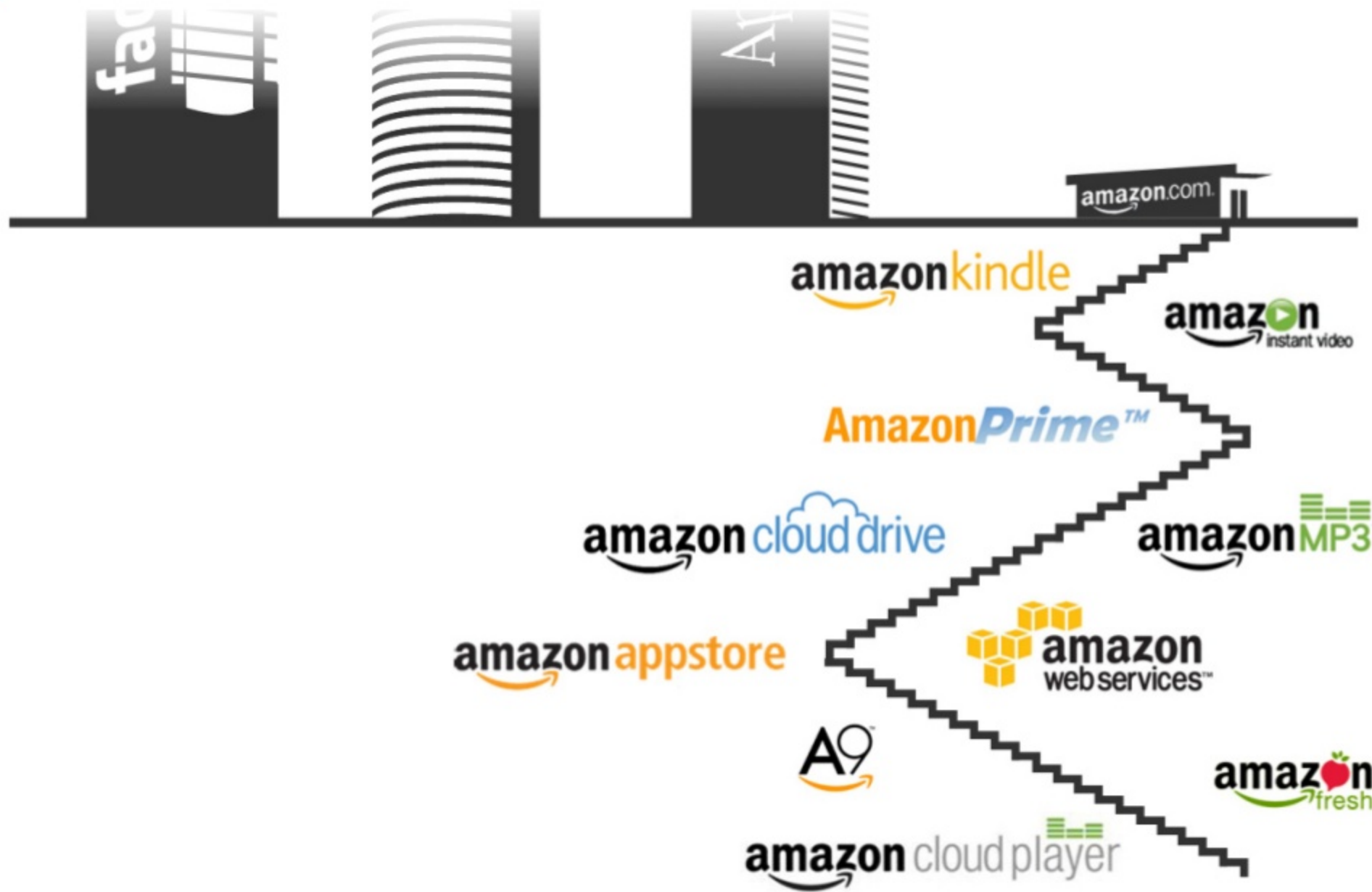


Amazon.com: a digital shop around the corner...





... and a digital colossus.





Did you know:
all these companies belong to Amazon...





Did you know: Amazon is also...



AmazonBasics

Amazon-branded electronic products



AmazonFresh

sells and delivers groceries in Seattle



AmazonStudios

online social movie studio



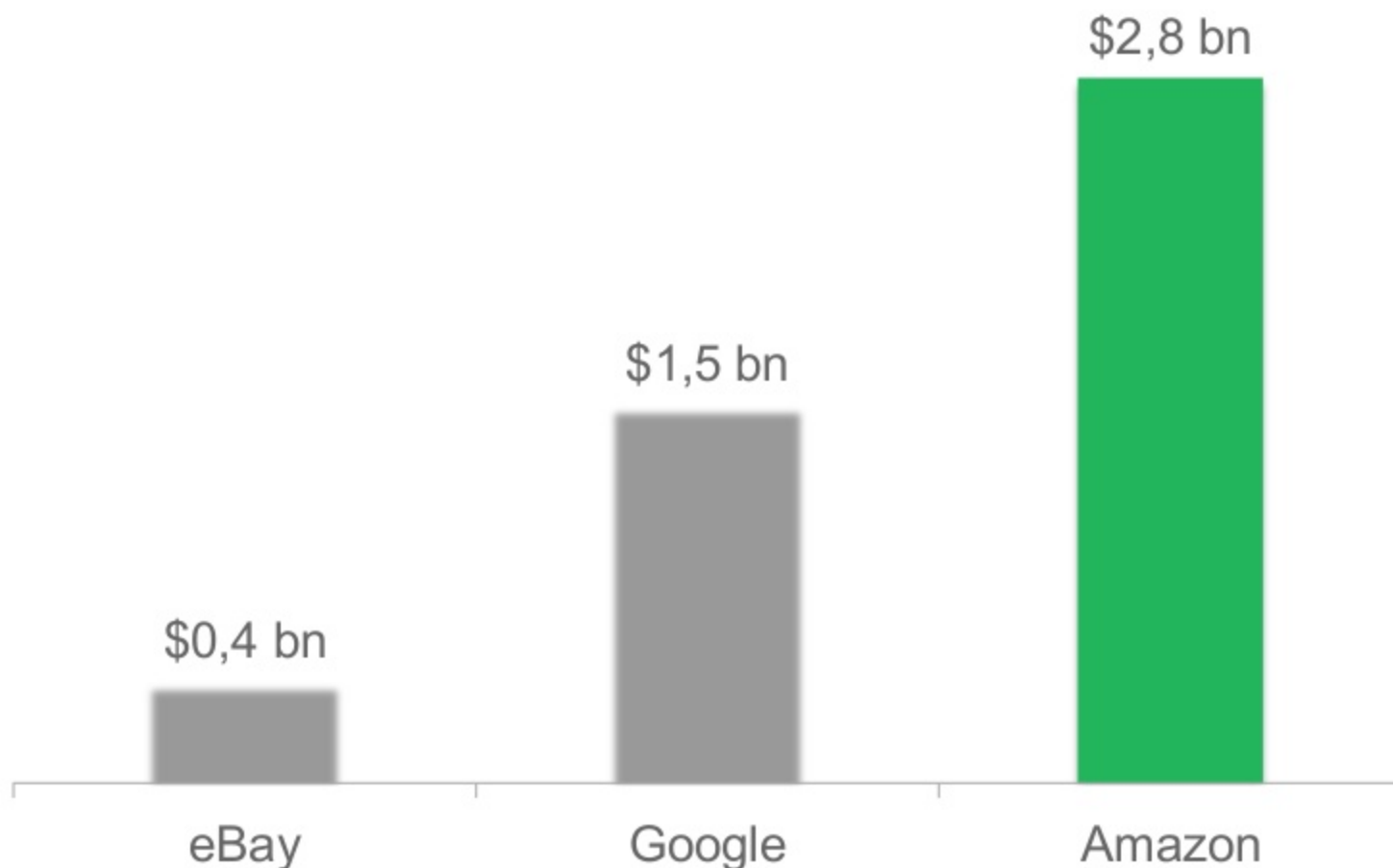
Amazon WarehouseDeals

offers discounts on refurbished products



Did you know: Amazon has had one of the fastest growths in the Internet's history...

Revenues reached within first 5 years



Amazon and eBay results from 1995 to 2000, Google from 1998 to 2003.

Even though Zynga and Groupon appear to have an even quicker growth, they haven't been compared because 1- sales have not been officially disclosed 2- they haven't reach their fifth year



Did you know: Amazon Web Services drives these companies...

Etsy

ticketmaster®

foursquare

papaya



Quora



Flipboard

NETFLIX

airbnb
Travel like a human.

Tapjoy
FUELING GREAT APPS

zynga®



Pfizer

esa
European Space Agency
Agence spatiale européenne

Unilever

Dropbox

UniCredit Bank

NASDAQ OMX

yelp.

theguardian

ERICSSON

HitachiSystems



37signals

Schneider
Electric

Voyages-
snCF.com



reddit

FindTheBest
unbiased, data-driven comparisons



Did you know: **Amazon.com is a giant...**

Y/Y growth for Q2 2012 **+29%**

Market cap **\$105 bn**

Customers **152 m**

Employees **51,300**

Annual revenue **\$48 bn**

Internet traffic rank **11th**

Retail brand **1st**

Paid out **\$1.2 bn**

Paid out **\$775 m**

2 × growth of

1,7 × market cap

4 × # customers

13 × more than

27% more than

before

before

to buy

to buy

*E-commerce
market*





Why? A vision...

From 1994, Jeff Bezos knew he could create a retail website **that would not have** the limitations physical businesses encounter.

**“You could build a store online that simply
could not exist in any other way.**

You could build a true superstore with exhaustive
selection; and customers value selection.”

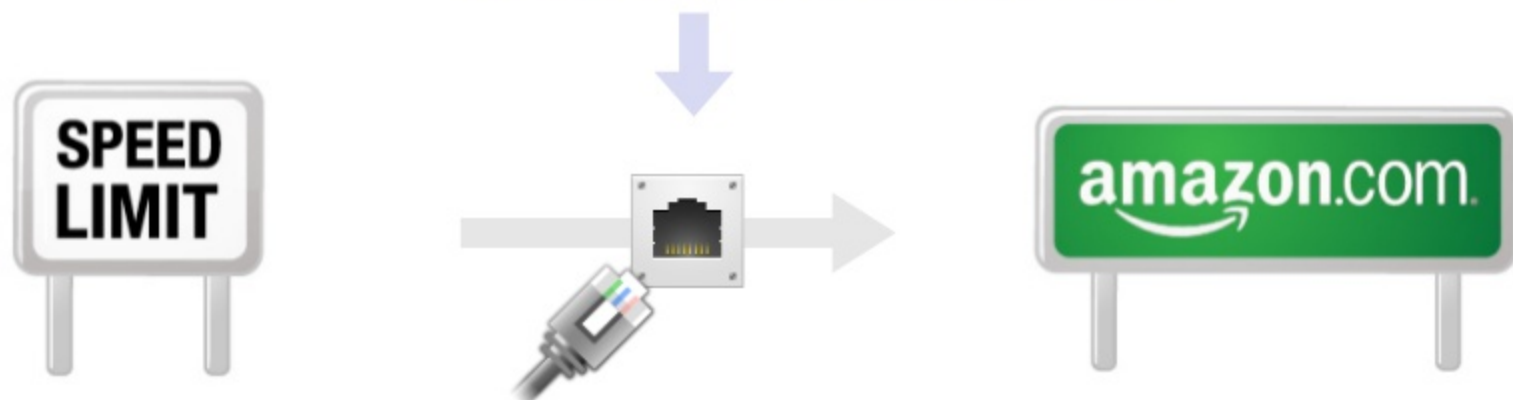
Jeff Bezos





... served by great execution & innovation

Digital Engine: A digital lever providing a significant advantage to outperform one's competitors



- High fixed and variable costs
- No real-time metrics
- Slow innovation process
- Limited reach
- Limited space
- Slow inventory turnover

- Negligible variable costs
- Real-time optimization
- A/B testing and full-size prototypes
- No physical frontier: worldwide market
- Unlimited inventory and categories
- Ever-improving metrics & optimization

One by one, Jeff Bezos carefully assessed the true advantages the Internet would give him, and **pushed them to their boundaries**



Digital engine #1

No limits

How Amazon fosters a very classical business model with the Internet's specific advantages.



Not that disruptive of a model: “sell and deliver stuff to customers”

Amazon perfectly understood the **old-economy retail cocktail**:
low prices, large selection, convenience/customer experience.



“I can't imagine that ten years from now [customers] are going to say: ‘I really love Amazon, but I wish their prices were a **little higher**’”

Jeff Bezos





Jeff Bezos' 3 big ideas

1

Digital enables limitless inventory

2

Digital boosts customer care

3

Digital allows high margin, lowest prices



1995



2011

In 15 years,

Amazon went from **1 category** (books) to **16 main categories**

1

LIMITLESS INVENTORY



Amazon began with books...

Competition

Market was **large** and **fragmented**.

Contrary to the concentrated music industry, no player would have the power to freeze out a **new entrant**.



Product

A book does not have to be accurately described: it is a **universal** and **simple** object.

Book distributors were already exchanging **digitalized listing**.



Search

Search would make it easy for customers to find books **among the entire database**.

Amazon repeatedly appears first on Google's **results page**.





... and needed to get big fast

Buying power

With great size comes a better ability to **negotiate volume discounts**.

Suppliers ignore Amazon.com at their **own risk**.



Brand & trust

Trust is hard earned, and easily lost

It involved establishing a **world-class brand** before barnesandnoble.com



Cost management

It is logical to amortize high **fixed costs** over a great number of customers.

Variable costs are very low on the Internet.



Long-term focus: “**market share now equals revenue later**”

Netscape cofounder Marc Andreessen



Create a digital driven supply chain

Hiring from *the* expert: **Walmart** 

Amazon poached Walmart's employees:

- Richard Dalzell as its **Chief Information Officer**
- Jimmy Wright as its **Chief Logistics Officer**

They were responsible for Walmart's secret weapon:

- A **computerized** supply chain
- An impressive supply-and-distribution **network**

Walmart sued Amazon for violation of trade secrets law in 1998.

1995



Garage
400 sq feet

1997



2 fulfillment centers
300,000 sq feet

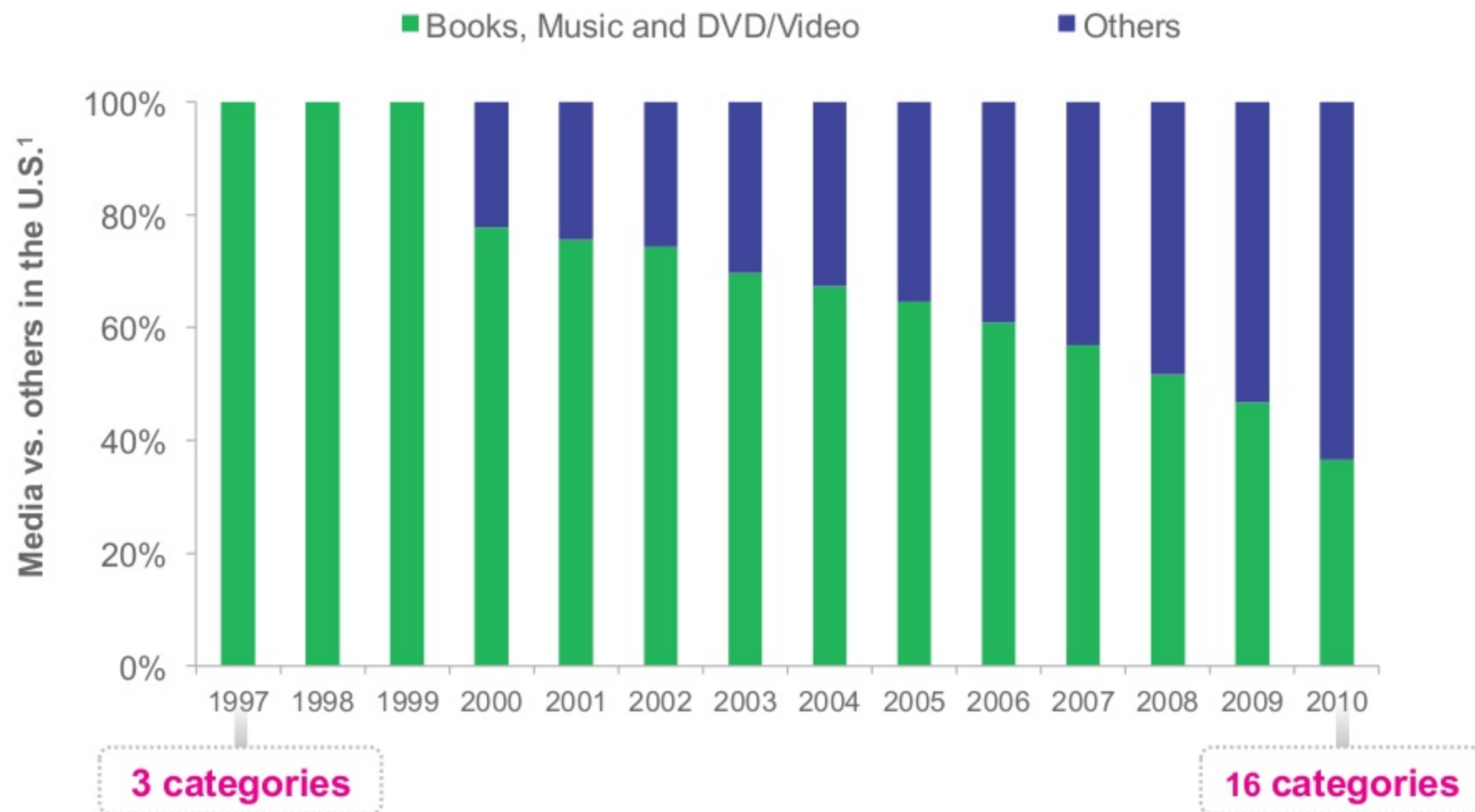
2010



50 fulfillment centers
26,000,000 sq feet



Limitless categories too



By introducing two new product categories every year for almost a decade, Amazon's market share represents **one third of U.S. e-commerce sales.**²



Case study: from books to music (1995-1998)

Contrary to books, Amazon.com was no **first-mover** in music e-retailing.
But the company went back to work and used the same cocktail:



Amazon acquired CDNow in 2002 and began operating its website

CDNOW



Build, buy, partner: accelerate development

Build

From time to time, Amazon simply **created a new category**.

In May 2011, Amazon launched **MyHabit**, even though VentePrivée was the market leader.

MYHABIT

Buy

When competitors are already well established, Amazon may **buy out** an incumbent.

Quidsi (Diapers + Soap) acquired for \$540 m in 2010.

diapers
.com

SOAP
.com

Partner

In some vertical markets, Amazon **offers its technology service** and e-commerce expertise to third parties.

Co-branded webstore with **Toys "R" Us**.

Toys "R" Us

2000: exclusivity for 10 years
2006: ended by a lawsuit

Thanks to this strategy, Amazon had been able to **offer massive inventory**