

CASE 03

Amazon.com's Business Model and Its Evolution

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In 2015, Seattle-based e-commerce giant Amazon.com, Inc. (Amazon) surprised investors by posting an unanticipated second quarterly profit in a row after struggling with profitability the previous year. In the third quarter ended September 30, 2015, Amazon's revenues increased by 20% to \$23.2 billion, while net income was \$79 million, compared with a net loss of \$437 million in the corresponding quarter of the previous year. The revenue growth was attributed to the company's rapidly growing cloud-computing business, higher sales in North America, and initiatives to attract more customers. On the back of these unexpected quarterly results, Amazon shares surged, making it the most valuable retailer in the world surpassing Wal-Mart Stores Inc.¹ as of July 2015² (see Exhibits 1 and 2). "They are showing investors that if they want to deliver profits, they can. Amazon is a dominant online retailer, well on its way to becoming one of the world's largest retailers,"³ said Michael Pachter, analyst at Wedbush Securities Inc.⁴

Launched as an online bookstore in 1995, Amazon quickly expanded beyond books to include all types of consumer goods. The company constantly innovated with its business model and moved from consumer electronics to cloud computing services and later into the technology business. Amazon's business model was built around low prices, a vast selection, fast and reliable delivery, and a convenient online customer experience. Besides offering customers a vast selection of products at low prices, Amazon also provided marketing and promotional services for third-party retailers and web services for developers. It was Amazon's relentless focus on value and selection along with innovations around

EXHIBIT 1 Most Valuable Companies Included in the S&P 500, as of July 2015

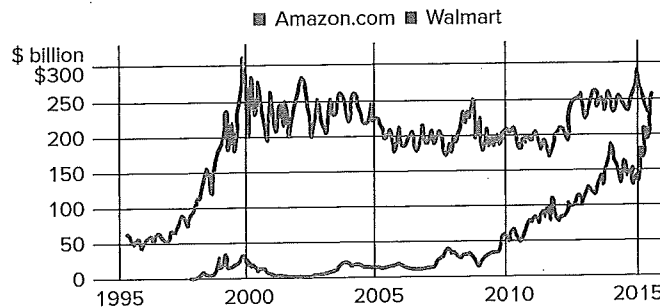
Company	Industry	Market Value (\$ billions)
Apple	Technology	\$713.7
Google	Technology	462.5
Microsoft	Technology	370.1
Berkshire Hathaway	Financials	350.2
Exxon Mobil	Oil & Gas	339.3
Wells Fargo	Financials	299.5
Johnson & Johnson	Healthcare	277.9
Facebook	Technology	268
General Electric	Industrials	264.6
Amazon.com	Retail	262.7
JPMorgan Chase	Financials	258.4
Walmart	Retail	233.5

Source: <http://www.usatoday.com/story/money/markets/2015/07/23/amazon-worth-more-walmart/30588783/>.

shipping and handling cost reductions that had made it a leader in e-commerce, opined analysts.

Amazon reinvested much of its free cash flow in its growth. The company's strategy was to put long-term investment, market gains, and value creation ahead of short-term profits. Amazon constantly plowed cash back into the business and

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EXHIBIT 2 Stock Price Performance of Amazon.com Relative to Walmart Stores, Inc.

Source: <http://qz.com/462605/amazon-is-now-bigger-than-walmart/>.

continued building new businesses in the hope of getting greater returns in the future. Though the strategy helped the company in capturing a larger share of the e-commerce sector, it was consistently reporting losses. In the third quarter of 2014, Amazon spent about 12% of its revenues on technology and content including new-product development and licensing for music and video streaming. That led to the biggest quarterly loss the company had suffered in 14 years. Despite the lack of profits, Amazon's shareholders backed the strategy of the CEO, Jeff Bezos, of being indifferent to short-term earnings in anticipation of future profits.

According to some critics, if the huge investments made by Amazon did not work out, investors' patience would finally run out and the company would be in trouble. They felt that Amazon had boundless ambition, but going forward, the company would have to be selective about where it invested in order to turn profitable. Moreover, some analysts felt that between price-match guarantees, free shipping, and plans to go multi-channel, other competitors were finally catching up with Amazon in the online retail game. Amazon would need to work harder and meet the expectations of its customers to maintain its dominance in the highly competitive online retail sector, they added. Some analysts raised questions like: How can Amazon keep its prices low as it grows? Is it time for the company to adjust its "growth now profits later" formula? Should it stop entering new categories and markets and instead focus on making profits? Will Amazon shareholders continue to be patient?

BACKGROUND NOTE

Amazon was founded in June 1994 by Bezos. At that time, the internet was gaining popularity and was being considered as a potential business medium. To cash in on this trend, Bezos came up with the idea of selling books to a mass audience through the internet. In June 1995, Bezos launched his online bookstore, Amazon.com, named after the river Amazon. Amazon officially opened for business on July 6, 1995. At the beginning, Amazon's business model was based on the "sell all, carry few" strategy wherein Amazon offered more than a million books online, though it actually stocked only about 2000. The remaining titles were sourced predominantly through drop-shipping wherein Amazon forwarded customer orders to book publishers, who then shipped the products directly to the consumers. By the end of 1996, Amazon was offering about 2.5 million book titles. In 1996, the company's net sales were about \$15.7 million and it reported a net loss of \$5.7 million.

To attract customers, Amazon launched the Amazon Associates Program in July 1996. This was an affiliate marketing program which allowed smaller websites to sell books through a link to Amazon posted on their sites. These sites in turn received a commission of 15% for any referred purchase and 5% for any other purchase made by that consumer. The program was successful as was evident from the fact that about 800,000 associates had signed up with Amazon by September 2002. As the scale of Amazon's operations grew, its partners found it difficult to fulfill the company's quick

shipment promise. As a result, Amazon began to build its own warehouses. In 1997, sales grew to \$147.8 million, an 838% increase compared to the previous year. Customer accounts too increased from 180,000 to 1,510,000, a 738% increase over the preceding year.

Over a period of time, Bezos realised that his earlier business model would not sustain the kind of growth he was looking for and decided to diversify. In 1998, Amazon expanded beyond books to include all sorts of shippable consumer goods such as electronics, videos, and toys and games. This led to a reversal of its business model from a "sell all, carry few" strategy to a "sell all, carry more" model. The focus shifted to a business model built around excellent delivery and efficient logistics. Orders began to land quickly at the doorsteps of customers. To attract third party sellers, Amazon launched a feature called "Zshops" in September 1999, which enabled merchants and customers to set up online stores on Amazon for a monthly fee of \$10 and a transaction cost of 1–5% of the value of the sale. Retailers and third party sellers registered on Zshop could sell their products on Amazon's site. Through Zshops, the company devised a new value proposition and by the end of 1999, Amazon's sales surpassed the billion dollar mark to reach \$1.6 billion.

In early 2000, Amazon started offering technology services through its e-commerce platform called Amazon Enterprise Solutions. It entered into partnerships with traditional brick-and-mortar retailers such as Borders, Inc.⁵ (Borders) and Target Corporation⁶ (Target) and offered them its e-commerce and customer service infrastructure to sell their products. In 2000, Amazon's stock price dropped by more than two-thirds and analysts began to criticize the retailer for entering into too many product categories and spreading itself too thin. That year, the company posted a net loss of \$1.4 billion and was on the verge of bankruptcy. To save his company from insolvency, Bezos decided to cut costs and restructure its business model. Amazon stopped selling products which were not profitable. As a cost-cutting measure, in January 2001, the company laid off 1,300 workers, closed down two warehouses, and shut down the customer-service center at Seattle. Bezos devised a strategy wherein Amazon decided not to expand its own warehouse inventory but to sell products through the warehouses of other companies. It allowed companies

to sell their products online through Amazon and charged them a part of the sales. The strategy proved to be a success and Amazon posted a net profit of \$5.1 million in the fourth quarter of 2002. By the end of 2002, Amazon had about 22.3 million registered users on its site.

In 2002, Amazon identified a new area of growth by launching Amazon Web Services (AWS), a platform of computing services offered online for other websites or client-side applications by Amazon. These web services provided developers access to Amazon's technology infrastructure that they could use to run virtually any type of business. Serving the needs of these developer customers required different processes, resources, and a new business model. Though at that point it was risky for Amazon to invest in new business models, Bezos went ahead and launched AWS. The move was largely successful as within five years of its launch, AWS had grown into one of the largest computing services platforms in the world.

In 2003, Amazon expanded its overseas business by launching international websites in Asia-Pacific and European countries. To deliver goods to end consumers at a reasonable price, Amazon employed a business model called the "Online Retailers of Physical Goods" wherein it obtained products directly from the distributors rather than stocking all the goods in its warehouse. In 2005, Amazon launched a free shipping program for its customers called Amazon Prime,⁷ wherein customers received free two-day shipping on their purchases for a fee of \$79 per year. According to industry observers, the program disrupted the retail industry by enveloping more customers into its fold and enhancing customer loyalty.

In 2006, Amazon developed a new business model aimed at serving an entirely different customer—third-party sellers. The company offered fulfillment services to sellers through the Fulfillment by Amazon (FBA) program where merchants sent cartons of their products to Amazon's warehouses while Amazon took the orders online, shipped the products, answered queries, and processed returns. Amazon gained a competitive advantage by publicly sharing its business model with small enterprises through the FBA program, said industry observers. By opening up its business to other retailers who were basically competitors, Amazon transformed its business from direct sales to a sales and service

model, bringing many sellers under one roof and receiving commissions from their sales.

In late 2007, Amazon set up its research division Lab126 and launched the Kindle e-book reader. The e-book reader was a business model not only alien to Amazon but also potentially disruptive to the publishing industry. To launch Kindle, Amazon had to become an original equipment manufacturer (OEM) and partner with independent publishers to generate content for the Kindle. The Kindle was successful in the market and in the first year of its launch, Amazon sold an estimated 500,000 Kindles.

In July 2009, Amazon acquired US-based online shoe retailer Zappos for \$847 million in stock and cash. In 2012, it forayed into the world of designer fashion, selling high end clothing, shoes, handbags, and accessories through its website Amazon Fashion. In April 2014, the company entered into the highly competitive video and games streaming market by releasing Fire TV.⁸ Three months later, in an ambitious strategic move, Amazon debuted in

the crowded smartphone market with the launch of Fire Phone. In order to bring the company closer to customers, Amazon opened its first physical store on the campus of Purdue University in West Lafayette, Indiana, in February 2015.

In 2014, Amazon's net sales increased 20% to \$88.99 billion, compared to \$74.45 billion in 2013. Net loss was \$241 million, compared with net income of \$274 million in 2013⁹ (see Exhibit 3).

BUILDING AND EVOLVING THE BUSINESS MODEL

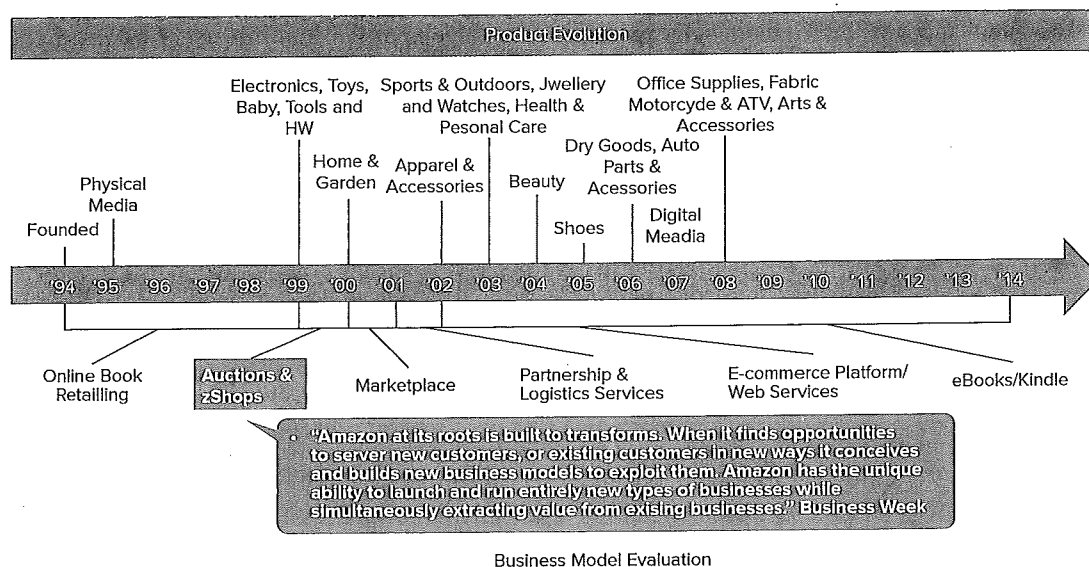
Over the years, Amazon had disrupted the online retail industry and transformed itself from an e-commerce player to a powerful digital media platform focused on growth and innovation. It constantly reinvented its business model and found new ways to create value for its customers. According to analysts, Amazon's business model was innovative

EXHIBIT 3 Amazon.com's Consolidated Income Statements, 2010-2014
(in millions of \$)

	2014	2013	2012	2011	2010
Net product sales	\$70,080	\$60,903	\$51,733	\$42,000	\$30,792
Net services sales	18,908	13,549	9,360	6,077	3,412
Net sales	88,988	74,452	61,093	48,077	34,204
Cost of sales	62,752	54,181	45,971	37,288	26,561
Gross profit	26,236	20,271	15,122	10,789	7,643
Fulfillment	10,766	8,585	6,419	4,576	2,898
Marketing	4,332	3,133	2,408	1,630	1,029
Technology and content	9,275	6,565	4,564	2,909	1,734
General and administrative	1,552	1,129	896	658	470
Other operating income (expense), net	133	114	159	154	106
Income from operations	178	745	676	862	1,406
Interest income	39	38	40	61	51
Interest expense	(210)	(141)	(92)	(65)	(39)
Other income (expense), net	(118)	(136)	(80)	(76)	(79)
Non-operating income (expense)	(289)	(239)	(132)	72	91
Income (loss) before income taxes	(111)	506	544	934	1,497
Provision for income taxes	(167)	(161)	(428)	(291)	(352)
Equity-method investment activity, net of tax	37	(71)	(155)	(12)	(7)
Net income (loss)	\$ (241)	\$ 274	\$ (39)	\$ 631	\$ 1,152

Sources: Amazon.com Inc., Annual Reports.

EXHIBIT 4 Amazon's Business Model Evolution



Source: <http://www.more-with-mobile.com/2014/02/google-nest-case-of-deja-vu.html>.

because it combined the company's online retail expertise with its ability to understand the needs of its customers. Amazon moved beyond books to foray into completely new product categories such as e-readers and enterprise cloud computing services (see Exhibit 4). When he founded the company, Bezos was aware that there would be a constant need to modify Amazon's business model to survive in the highly competitive online retail market. Since then, Amazon had been consistently evaluating and experimenting with its business model by developing expertise in e-commerce innovation and investing in multiple businesses to differentiate itself from brick-and-mortar retailers. According to industry experts, Amazon was successful largely because of its exceptional growth in new markets and adjoining markets. "Amazon at its roots is built to transform. When it finds opportunities to serve new customers, or existing customers in new ways, it conceives and builds new business models to exploit them. Amazon has the unique ability to launch and run entirely new types of businesses while simultaneously extracting value from existing businesses,"¹⁰ said Mark W. Johnson co-founder of Innosight LLC.¹¹

Amazon's business model was based on capturing growth through innovative disruption as the company believed that innovation was the key to

sustainability. The four pillars of Amazon's business model were low prices, wide selection, convenience, and customer service. The attributes offered by Amazon, like low prices, vast selection, fast and reliable delivery, and a convenient online shopping experience, complemented each other. According to William C. Taylor, one of the founding editors of Fast Company, "These value propositions are inter-related, and they all relate to the Web. We have the widest selection because we operate in the virtual world. We discount because we have a lower cost structure than physical stores do [. . .]. We also want to 'redecorate the store' for every customer. We can let people describe their preferences, analyze their past buying patterns, and create a home page specifically for them. These interactive features are going to be incredibly powerful. And you can't reproduce them in the physical world. Physical stores have to be designed for the lowest common denominator."¹²

Low Prices

Amazon's value proposition of low prices ensured that customers got the best deal. Over the years, Amazon had proactively cut prices and offered free shipping in order to attract customers. Reportedly, the prices of goods sold by Amazon were up to 13%

lower than those prevailing in other online and brick-and-mortar stores.¹³ According to industry observers, Amazon was able to offer the lowest prices possible to customers by improving its operating efficiencies, leveraging fixed costs, and allowing third party sellers to sell their products on the Amazon website and it passed on the savings to its customers in the form of lower prices. Moreover, Amazon had lower overhead costs as it did not have to maintain physical stores. The sales tax advantage it derived in some places where it did not have a physical presence also helped the company in keeping its prices low and gave it a cost advantage over brick-and-mortar stores. Also, "Frugality," one of the core values of Amazon, created significant savings for the company and allowed it to lower its prices (see Exhibit 5).

But some analysts felt that Amazon might not be as price competitive as it was perceived to be. According to them, Amazon gauged the most popular items in the online retail market and adjusted the prices of those items that shoppers were most likely to price compare. It offered huge discounts on its

most popular products, while making profits on less popular ones. For instance, Amazon priced a best-selling router 20% below its competitor's price; at the same time, it priced a less popular model 29% more than its competitor. Offering consistently low prices on the best-selling items led to a perception among consumers that Amazon had the best prices overall, pointed out experts.

Wide Selection

Amazon offered customers the biggest selection of products. As of 2015, the Amazon website had about 20 product categories including Books; Movies; Music; Video Games; Electronics & Computers; Home & Garden; Tools; Toys; Kids & Baby; Grocery; Health & Beauty; Clothing; Shoes & Jewelry; Health & Beauty; Sports & Outdoors; and Automotive & Industrial. By purchasing large volumes of products directly from manufacturers, distributors, and publishers, Amazon received discounts from them. Amazon also expanded into new categories

EXHIBIT 5 Amazon Core Values

1. **Customer Obsession:** We start with the customer and work backward.

Invest in Customers First

"If you do build a great experience, customers tell each other about that. Word of mouth is very powerful."—Jeff Bezos

Customer Focus	Frugality	Innovation
<p><i>"We start with the customer and work backward."</i></p> <p>Following a bottom-up approach, every decision at Amazon is driven by the customer's needs.</p>	<p><i>"Amazon is spending money on things that matter to customers."</i></p> <p>Frugality is part of the company's DNA. Amazon is continually looking for ways to do things cost-effectively.</p>	<p><i>"I think frugality drives innovation, just like other constraints do."</i></p> <p>Amazon is always looking for simple solutions in order to provide lower prices to its customer.</p>
<p><i>Amazon created a trusted, informative and loyal relationship with its customers.</i></p>		

2. **Innovation:** If you don't listen to your customers you will fail. But if you only listen to your customers you will also fail.
3. **Bias for Action:** We live in a time of unheralded revolution and insurmountable opportunity-provided we make every minute count.
4. **Ownership:** Ownership matters when you're building a great company. Owners think long-term, plead passionately for their projects and ideas, and are empowered to respectfully challenge decisions.
5. **High Hiring Bar:** When making a hiring decision we ask ourselves: "Will I admire this person? Will I learn from this person? Is this person a superstar?"
6. **Frugality:** We spend money on things that really matter and believe that frugality breeds resourcefulness, self-sufficiency, and invention!

like film streaming and cloud computing. In order to expand the selection of new products available on its websites, Amazon launched programs such as the Merchants@ programs and the Syndicated Stores program wherein it enabled small businesses to offer their products for sale on its websites.

Amazon adopted a three-pronged strategy in order to widen its selection of products. It set up special teams' category-wise at its stores which focused on buying products, working with vendors, and expanding customers' selection. In its seller business where third parties were involved, Amazon appointed category managers who decided on the categories where they wanted sellers and subsequently invited them to do business. In certain categories like home décor where Amazon wanted to further augment the selection, it offered Product Ads, an advertising program that allowed sellers to promote their products on Amazon's website by uploading their catalogue. These Product Ads offered Amazon customers an unprecedented selection in a wide range of categories.

Convenience

The third pillar of the Amazon business model was convenience. Amazon offered customers hassle free anytime, anywhere ordering by using modern technology and ensuring that any product could be delivered cheaply and reliably through a simple order process accessible from customers' homes or offices. Amazon's website was browser friendly with easy-to-use functionality, fast and reliable delivery, timely customer service, feature rich content, and a trusted transaction environment. The website offered a selection of search tools to find books, music, videos, and other products based on keyword, title, subject, author, artist, publication date, etc. Amazon's website was designed to keep the download time to a minimum.

Customers could easily find products on the Amazon website through an easy to search format and also benefited from features such as user-generated reviews, product recommendations, browsing options, gift certificates, book excerpts, etc. According to analysts, the product ratings and reviews on the Amazon site made consumers informed, perceptive, and price sensitive. At Amazon, product availability was a priority and shipping was completed as close to the time of order as possible. The company ensured that a first time user became a habitual customer. For instance, if a book was unavailable, it would try to find a used

copy. If the wrong product was shipped, the company made sure it accepted returns and provided the correct items as quickly as possible.

To conveniently ship items to customers, Amazon relied on an entirely automated order management system, closely linked to its suppliers and payment networks. The website offered customers up-to-date inventory availability information, estimated delivery date, and delivery shipment notifications. Customers could send products to multiple locations through different modes of payments such as credit card, wire transfer, or checks. They could check the shipping costs of each item before deciding on the mode of delivery. As soon as a customer placed an order, he/she received an e-mail confirming all the details. The customer's credit card was charged only when the order was actually shipped. Customers could track their orders in process and view the complete order history at any time using the "Your Account" feature on the company's website. Additionally, customers could cancel unshipped items, change delivery instructions and payment options, combine orders, edit gift options, and return items using the same feature. In case customers wanted to contact customer service representatives, they could do so by e-mail or phone.

Amazon operated customer service centers globally and fulfilled customer orders through the US and international fulfillment centers and warehouses. About 95% of the products were shipped on the day they were ordered. Products were packed in strong boxes with extra padding to ensure they reached customers in good condition. According to observers, the entire Amazon delivery system was so quick and convenient that it generated plenty of word-of-mouth recommendations. *"Consumers love Amazon because they can find whatever they want, order it with a click of a button, and get it within 24 hours, sometimes less. That presents an immense logistical challenge, which Amazon has solved with a vast, super-efficient, and super-expensive distribution system. These investments are driving Amazon forward and preventing rivals from catching up. More than that, they make up the essence of what the firm is,"*¹⁴ said Adam Gale, Section editor at *Management Today*.

Customer Service

Customer service, loyalty, and customer retention were the three important aspects of Amazon's service culture. Offering compelling value to its

customers had been the core strategy of Amazon since its inception. The company seduced customers through low prices, prompt delivery, a growing array of services and products, and exemplary customer attention. Amazon primarily focused on three primary customer groups—consumer customers, seller customers, and developer customers.

The company believed that a good customer experience would lead to repeat buyers. It worked relentlessly to develop and innovate ways by which customers could be served and satisfied. It provided easy-to-use functionality, fast and reliable fulfillment, and timely customer service. Amazon built a personal bond with customers by helping them make decisions through recommendations of items based on past purchases, user reviews and ratings, and

suggestions on complementary purchases. Some of the customer-friendly features available on Amazon were a personalized shopping experience for each customer, book discovery through the “Search inside the Book” option, convenient checkout using “1-Click Shopping,”¹⁵ and several community features such as Listmania,¹⁶ Gold Box,¹⁷ and Window-shop View.¹⁸

Amazon offered customers a variety of products and services, some of which it did not make any money on, but which made the customer much more valuable to it. The company invested heavily in building advanced technological infrastructure and spent huge sums of money on customer service and loyalty programs, even though it affected the operating margins of the company (see Exhibit 6). Some

EXHIBIT 6 Selected Features Offered to Consumer Customers by Amazon.com

Customer reviews	Reviews by registered users helped customers make informed purchase decisions.
Online reviews	Amazon let customers submit feedback on books and other products sold on the site. It was a popular online feature as consumers could share their thoughts with other readers.
Personalized recommendations	Amazon.com suggested books that registered users might like, based on their past purchases, customer ratings, and authors preferred.
Instant Order Update	It informed customers when they were about to purchase a product that they had already purchased.
Amazon Prime	This was a free two-day shipping for \$79/year with no minimum purchase required. It could be upgraded to one-day/overnight shipping for \$3.99.
FREE Super Saver Shipping	This feature provided all customers with free shipping on orders over \$25 though some conditions applied.
1-Click Ordering	This allowed registered users to place an order by clicking just one button. It was not necessary for the customer to repeatedly fill in shipping and credit card information while buying products.
Where's My Stuff	This allowed customers to track the status of their shipment.
Wish List	Customers could make lists of products they would like to purchase or get as gifts. The list could be saved for online viewing by others.
Amazon.com Anywhere	This allowed customers to shop on Amazon using their wireless devices.
Purchase Circles	This showed lists of the most popular items purchased by customers in a given zip code.
Look Inside the Book	The shopper could browse through pages of books using this feature.
Search Inside the Book	Customers could search the text inside books for specific keywords.
Amazon Dash	A new device, this allowed customers to add groceries and household goods to their shopping lists using the AmazonFresh service.
May Day	The Mayday button enabled customers to connect to a live customer support professional for help with any type of product query within 15 seconds, 24/7, free of charge.

Note: The list is not exhaustive.

Sources: Compiled from various sources.

of the popular customer service initiatives launched by Amazon were Amazon Prime, Mayday,¹⁹ One Day Delivery service,²⁰ Amazon Dash,²¹ Amazon Lockers,²² and Automatic refunds.²³ In December 2013, Amazon began working on a drone-based delivery system in the US called Amazon Prime Air to deliver packages at customers' doorsteps within 30 minutes in urban areas.

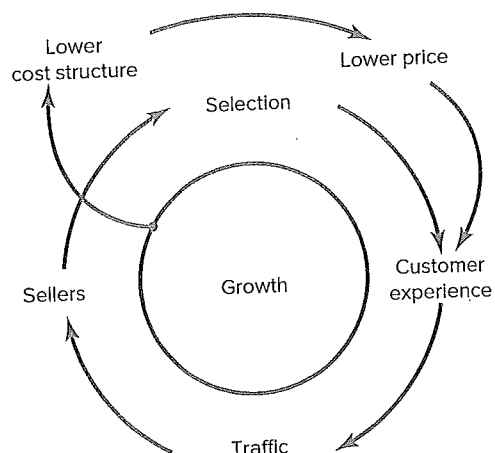
According to analysts, Amazon had built a deeply loyal customer base over the years. By the end of 2014, Amazon had a customer base of 270 million.²⁴ Experts attributed the increase in customer base mainly to the company's user-friendly website and excellent customer service. "Amazon's customer service has always been recognized and applauded as world-class. This is remarkable, especially since it is a purely online retailer. Amazon has hardly any 'human' interactions—often considered crucial perception points for increasing customer satisfaction and loyalty—in the value delivery chain. Many companies try to emulate Amazon and cost-effectively provide higher levels of service through leveraging technology. But Amazon does not only 'deliver customer service'—they build powerful partnerships with their customers,"²⁵ said Ron Kaufman, a leading customer service consultant.

AMAZON'S GROWTH WHEEL

In 2001, Bezos and his employees outlined a virtuous cycle called the "Amazon Flywheel," which they believed powered their business. Bezos once invited well-known author and business consultant Jim Collins (Collins) to participate in Amazon's executive retreat in 2001 to discuss the company's future. As part of the discussions, Collins told Bezos and his executives that they had to decide what they were best at. Drawing on Collins's concept of a flywheel, Bezos and his executives drew their own virtuous circle placing customer experience at the core of Amazon's flywheel. Internally, it was referred to as Bezos' napkin diagram as he drew it on a napkin.

Customer experience was at the core of Amazon's flywheel. According to the concept, growth would be faster when more customers visited the site. By offering low prices, a wide selection, and a great customer experience, Amazon was able to drive traffic (customers) and increase sales, which in turn attracted third party sellers and accelerated the wheel. By partnering with the best third party sellers, Amazon was able to

EXHIBIT 7 Amazon Flywheel



Source: www.amazon.com.

offer a wide selection of products that added to economies of scale and allowed the company to benefit from a lower cost structure. This led to improvement in operating efficiencies and the savings were passed on to its customers in the form of lower prices and free shipping, which in turn attracted more customers (see Exhibit 7). When any part of this wheel was fed, it accelerated the loop and the cycle continued.

According to experts, Amazon focused on innovation, selection, price, and customer service that continuously improved the customer experience and resulted in market share gains. Commenting on the company's growth, Patrick O'Brien, a lead analyst at Verdict Retail,²⁶ said, "They've managed to get top of mind on every category without doing anything creative—Amazon's 20 years isn't a marketing story, it's all about availability and scale."²⁷

GROWTH NOW, PROFITS LATER

Amazon generated revenues by selling millions of products to customers through its retail website and by charging third party sellers who sold products on Amazon's website. It also served as a platform for independent publishers to publish books on Kindle with a 35% or 70% royalty option. In addition, Amazon generated revenue from its cloud

business by providing web technology infrastructure to developers and enterprises. It followed a high fixed costs and low marginal costs business model. According to Eugene Wei, a former Amazon employee, *"Amazon is a classic fixed cost business model, it uses the internet to get maximum leverage out of its fixed assets, and once it achieves enough volume of sales, the sum total of profits from all those sales exceed its fixed cost base, and it turns a profit."*²⁸

Amazon's strategy was to put long-term investment and value creation ahead of short-term profits. The company constantly reinvested profits in its business and made investment decisions based on long-term market leadership considerations rather than short-term profitability. Amazon spent significantly on future expansion, and according to Bezos, the company was still in "Day One" of its growth. In a letter to shareholders in 1997, Bezos wrote, *"Long-term growth is what Amazon is about. Its focus is on years and decades, not quarters. It believes that if it has increased market leadership, it can get better deals on the goods it sells, and then increase its margins. That results in profits. This value will be a direct result of our ability to extend and solidify our current market leadership position. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital."*²⁹

Amazon adopted a profitless business model as it invested its free cash flow back into its business by expanding its operations and investing in new technology and customer service initiatives. Experts said that though Amazon generated profits on almost all transactions, it posted losses in some fiscal quarters due to significant investments in building new products, establishing warehouses, implementing and managing logistic systems, and offering free shipping. Amazon had spent about \$14 billion on building 50 new warehouses since 2010. In 2012, Amazon acquired Kiva Systems Inc. (Kiva), a maker of robots that moved items around warehouses, for \$775 million. In August 2014, it acquired Twitch Interactive, Inc. (Twitch), a video-game streaming company, for about \$970 million. On the product front, in 2014, Amazon released its first smartphone, the Amazon Fire, and a video streaming box, Fire TV. It also spent \$1.3 billion on its online streaming service Prime Instant Video.

Critics alleged that Amazon sacrificed profit margins to undercut competition and gain customer loyalty. For instance, to gain a competitive advantage in the tablet market, Amazon sold the Kindle e-reader at cost, and lost about \$11 per customer on its free shipping program, Amazon Prime, they said.

Despite growing sales, Amazon reported a loss in 2014. Apparently, a surge in spending on new product development and music and video licensing had resulted in a net loss of \$437 million in the third quarter of 2014, the company's largest quarterly loss in 14 years.³⁰ In 2014, Amazon reported three losing quarters out of four and posted a yearly loss of \$240 million against a net gain of \$274 million in 2013.³¹ When Matthew Yglesias, a blogger from Slate,³² described the company as "a charitable organization being run by elements of the investment community for the benefit of consumers,"³³ Bezos took issue with this in a letter to shareholders and said that Amazon was a business whose strategy was to make its customers as happy as possible.

RESOURCES AND PROCESSES THAT SUPPORT THE STRATEGY

Technology

Amazon was one of the most innovative companies in the US. From the beginning, it had been at the forefront of innovation, adding and refining technology and changing the way customers shopped. On invention being a second nature at Amazon, Bezos said, *"Invention comes in many forms and at many scales. The most radical and transformative of inventions are often those that empower others to unleash their creativity—to pursue their dreams. That's a big part of what's going on with Amazon Web Services, Fulfillment by Amazon, and Kindle Direct Publishing. With AWS, FBA, and KDP, we are creating powerful self-service platforms that allow thousands of people to boldly experiment and accomplish things that would otherwise be impossible or impractical. These innovative, large-scale platforms are not zero-sum—they create win-win situations and create significant value for developers, entrepreneurs, customers, authors, and readers."*³⁴

Some of the company's technological advances pioneered by Amazon included 1-Click, Recommendations, Reviews, Wish List, Autorip,³⁵ Kindle, Amazon Web Services, Amazon Cloud Drive,³⁶ Random Stow,³⁷ The SLAM (Scan, Label, Apply, Manifest),³⁸ Amazon Storyteller,³⁹ Amazon Studios,⁴⁰ KDP,⁴¹ Fire TV, Fire Phone, and 3D printing.⁴² Amazon had also come up with innovations that improved the customer experience such as May Day, Amazon Dash, and Amazon Echo.⁴³ Amazon also began working on a drone-based delivery system in the US called Amazon Prime Air that would deliver packages at customers' doorsteps within 30 minutes in urban areas.

Amazon Lab126, the research arm of the company, was responsible for innovation, research, and development of high-end consumer electronic devices like the Kindle family of products. Amazon also has a separate subsidiary, A9, that worked on innovations in search and advertising by creating mobile apps that allowed shoppers to shop conveniently on Amazon. Amazon also created its own internal experimentation platform called "Weblab" to evaluate improvements to its websites and products. In 2013, the company operated about 1,976 Weblabs worldwide. In 2014, Amazon spent about \$8.72 billion on research and development.

Amazon achieved a competitive advantage by developing its own proprietary technologies, as well as technology licensed from third parties. The company's transaction-processing systems handled millions of items, multiple shipping addresses, and shipment methods. Amazon leveraged its big data resources to upgrade its customer recommendation system, which was integrated into nearly every part of the purchasing process right from product search to checkout. Explaining why Amazon continued to invest in technology, Bezos said, "*We use high-performance transactions systems, complex rendering and object caching, workflow and queuing systems, business intelligence and data analytics, machine learning, and pattern recognition, neural networks and probabilistic decision making, and a wide variety of other techniques[. . .]. Many of the problems we face have no textbook solutions, and so we—happily—invent new approaches. [. . .] Technology infuses all of our teams, all of our processes, our decision-making, and our approach to innovation in each of our businesses. It is deeply integrated into everything we do. Invention is in our DNA*

and technology is the fundamental tool we wield to evolve and improve every aspect of the experience we provide our customers."⁴⁴

Product Development

The product development process at Amazon was customer-centric and focused on the value delivered to the customer. While developing new products, Amazon followed a unique philosophy called "working backward"—the company always thought from the customer's perspective back to the product, knowing at the front-end what the customer could expect, and working backwards allowing the team to build it. The goal of this approach was to drive clarity and simplicity through an explicit focus on customer. On the concept of "working backward" Bezos said, "*It is to say, rather than ask what are we good at and what else can we do with that skill, you ask, who are our customers? What do they need? And then you say we're going to give that to them regardless of whether we currently have the skills to do so, and we will learn those skills no matter how long it takes.*"⁴⁵

The "working backward" concept involved four steps—writing a press release, a Frequently Asked Questions document, a well-defined customer experience, and a User Manual.

The conceptualization of the product generally started with the product manager writing a press release for a prospective product outlining the value of the product to its potential customers. The press release outlined the features and benefits of the product and what kinds of problems it could solve. If the customers did not find the idea of the product interesting or exciting, the idea was shelved. The product manager then kept iterating on the press release until customers were satisfied with product's benefits. The feedback from the customers was then passed around internally at the company.

The next step involved preparing a Frequently Asked Questions document which included questions raised by the customers based on the press release. These questions were answered by the product team. The third step involved designing a well-defined customer experience to show the way a customer would use the product. For instance, for products with a user interface, the product development team built mock-ups of each screen that the customer used. The aim was to convey how a

customer would fulfill his/her need using the product. The final step involved writing a user manual which offered details of the product and gave information to the customer on everything they needed to know to use the product.

Once the process was completed, it became clearer to the product development team what kind of product they would build. The concept of the new product was then explained to other teams within Amazon so that all the teams had a shared vision of the product. The "working backward" approach reduced the cycle time from concept-to-delivery with the customer at the forefront of every decision the company made. According to Ian McAllister, Director at Amazon, *"Once the project moves into development, the press release can be used as a touchstone; a guiding light. The product team can ask themselves, 'Are we building what is in the press release?' If they find they're spending time building things that aren't in the press release (overbuilding), they need to ask themselves why. This keeps product development focused on achieving the customer benefits and not building extraneous stuff that takes longer to build, takes resources to maintain, and doesn't provide real customer benefit."*⁴⁶

Digitally Driven Supply Chain

Amazon had one of the most well developed supply chains in the world which included warehouse and transportation management, inbound and outbound shipping, demand forecasts, and inventory planning. Amazon's supply chain was fast paced and tightly integrated and minimized the need for human intervention by adopting advanced technology. For instance, whenever a customer ordered books online, the order-management system immediately communicated with the inventory and warehouse-management systems to find the optimal distribution center to fulfill the order and in less than a minute, the customer was informed about the delivery date of the items. The supply chain team at Amazon focused on customer experience and vendor management. This involved daily planning, analysis, metrics and communication, and managing operational relationships with vendors, fulfillment centers, and retail teams. In order to deliver products to customers quickly, Amazon installed robots in its warehouses. The robots cut out much

of the hard picking work and brought items directly to workers, who then processed the orders. Though using robots was a costly investment, it resulted in cost advantages over time by streamlining operations and increasing the number of items being processed and shipped through Amazon warehouses. Amazon depended on shipping carriers such as UPS, FedEx, and USPS for delivering products to customers. The company also used drop shipping⁴⁷ wherein manufacturers shipped goods directly to consumers on its behalf.

Amazon boasted of one of the most advanced fulfillment networks in the world with large storage capacities. As of July 2015, Amazon managed about 149 active distribution centers the world over. In addition to warehouses, Amazon built sortation centers which took already packed orders from nearby Amazon fulfillment centers and sorted them according to the zip codes before sending them to shipping carriers for delivery to Amazon customers. Amazon had 19 sortation centers in the US as of November 2015.⁴⁸

People

As of June 2015, Amazon had about 183,100 employees worldwide. These employees were empowered to make decisions quickly. Amazon was a decentralized company where independent ideas dominated over group thinking. Bezos instituted, as a company-wide rule, the concept of the "two-pizza team"—that is, any team should be small enough to be fed with two pizzas. Bezos used pizza as a metric for choosing the size of his teams. According to him, if a team could not be fed on two pizzas, then that team was too large. The concept limited the team to five to seven members. According to Bezos, the concept of the "two-pizza team" was not so much about the team size, as about autonomy and accountability and the team's fitness function.⁴⁹ Bezos felt that small teams tended to work better, communicate more effectively, move fast, and innovate and test their ideas independently. The teams were free to execute ideas, pursue creative strategies, and set their own internal priorities. According to analysts, the model helped Amazon to be innovative and attract and retain entrepreneurial talent. The "two pizza" teams conceived some of the popular features on Amazon's website such as the GoldBox deals, Bottom of the Page deals, and daily bargains on staples.

While hiring, the company looked for innovative and smart people who would increase the average level of productivity on whichever team they joined. Amazon had in place a "bar raiser" program, wherein a select group of Amazon employees volunteered to be part of interview committees. These full-time employees, called "bar raisers," in addition to their responsibilities, spent about 20 to 30 hours each week interviewing prospective hires. Bar raisers who evaluated a particular candidate got together to decide whether the candidate would be a good fit for company. If any of them had any objection to hiring the candidate, he/she was not be selected. According to Amazon, the basic premise behind this approach was to raise the bar for the next hire, so that the overall talent pool was always improving.

Marketing

To attract customers, Amazon focused on online marketing channels. Customers were directed to the company's websites primarily through a number of targeted online marketing channels such as the Associates program, sponsored search, portal advertising, e-mail marketing campaigns, and other initiatives like outdoor and TV advertising. Online advertising included paid search marketing, interactive ads on portals, e-mail campaigns, and search engine optimization.

The company also used free shipping offers such as Amazon Prime as effective marketing tools. The search feature on the Amazon site along with its product recommendation features allowed Amazon to connect its products with prospective customers.

Partnerships

Amazon partnered with or acquired a number of companies across different sectors such as Drugstore.com (pharmacy), Living.com (furniture), Pets.com (pet supplies), Wineshopper.com (wines), HomeGrocer.com (groceries), Sothebys.com (auctions), and Kozmo.com (urban home delivery). In most cases, Amazon purchased an equity stake in these partners and also charged them a fee for placement of their products on the Amazon site to promote and drive traffic to their sites. Amazon also facilitated formation of partnerships with smaller companies through its Associates programme.

Amazon also offered its e-commerce platform to other retailers and to individual sellers including

technology services, merchandising, customer service, and order fulfillment. Programs such as "Merchants@" and "Syndicated Stores" enabled third party merchants to sell their products through Amazon. This arrangement provided customers a wider choice of products from numerous suppliers while helping Amazon to extend its reach into the customer base of other suppliers. In 2014, Amazon introduced the Amazon Seller App to help on-the-go sellers manage their businesses on Amazon directly from their mobile devices. Amazon's third-party sellers shipped 2 billion units in 2014, double the 2013 figure.⁵⁰ As of 2014, more than 40% of units were sold by more than two million third-party sellers worldwide.⁵¹

CHALLENGES

According to industry observers, Amazon over the years had disrupted other online retailers and brick-and-mortar stores and leveraged its e-commerce operations to become a retail Goliath. However, some critics felt that Amazon was too ambitious as it had been growing alarmingly and investing heavily. They felt that the strategy could backfire and that Amazon needed to be selective about the opportunities it pursued as it could not take customers and the competition for granted.

While Amazon was trying to dominate the online retail sector with its aggressive strategies, its competitors were not far behind. Between price-match guarantees, free shipping, and efforts to go multi-channel, other retailers were finally catching up with Amazon in the online retail game. Its biggest rival, Wal-Mart, was making online sales a high priority, moving forward. Other large online retailers too, like Google Shopping⁵² and Alibaba.com,⁵³ were quickly gaining ground. Some experts felt that as the future favored multi-channel retail, Amazon would find it difficult to survive as a pure play retailer, going forward. In the technology business, Amazon was facing tough competition from tech giants such as Apple Inc.⁵⁴ and Google Inc.⁵⁵ In order to stay competitive, Amazon would have to develop some path breaking products, analysts said.

One of the biggest challenges for Amazon was to keep prices low as it grew. Reportedly, some consumers found that prices at Amazon were less compelling than they had once been. Analysts opined that Amazon needed to stay competitively priced as

other retailers were finally price matching it. They said in the future, Amazon might have to raise prices to generate a profit for its shareholders, and this would threaten its reputation as a low cost leader. According to some observers, Amazon's key free shipping service Amazon Prime too had lost some appeal as rivals like Walmart and Target were challenging the Amazon shipping advantage by providing free shipping and offering instant pick up. Though Amazon admitted that it faced limitations in its quest to provide lower prices, the increase in Prime subscription fee by \$20 in 2014 implied that it was facing problems from its low margin model. *"This is clearly a chink in the armor. Free shipping going from \$25 to \$35, a higher Prime membership rate, add-ons, slower Prime delivery, etc. seem to indicate that the business model is not as infallible as many believe. For me it all harks back to the dot-com bubble days, when huge losses for customer acquisition were acceptable, until, well—you know,"*⁵⁶ said Ken Lonyai, a digital innovative strategist.

Amazon's shipping carriers like the US Postal Service, UPS, and FedEx were considering increasing their shipping rates, a move that could affect the e-tailer's bottom line. In 2014, Amazon spent about \$6.6 billion on delivery and received \$3.1 billion in shipping fees,⁵⁷ which according to some analysts, was unsustainable. *"The company has been investing heavily in delivery, which gives it an edge over other retailers. The company is betting that by investing in shipping and perfecting the fulfillment process, it will create a huge barrier to competition. That has worked so far, but is it possible that Amazon could have bet wrong? Is it possible the company's greatest strength could also be the biggest threat to its business?"*⁵⁸ wondered Daniel B. Kline, editor of *The Boston Globe*.

For quite a considerable period of time, Amazon avoided paying local sales tax in states where it did not have a physical presence such as a warehouse. However, in October 2015, the US Senate passed the Bipartisan Marketplace Fairness Act, giving states the authority to collect sales taxes on online purchases even when the internet retailers were not based within their borders. If Amazon was forced to pay state sales taxes, which many analysts believed was inevitable, it would reduce its cost advantage and make it more vulnerable to competition.

Some observers criticized the fact that Amazon had a finger in every pie. According to them, the

business was losing its shine as profits were dragged down by investments in fulfillment centers, updating products like the Kindle Fire tablet, and large acquisitions such as the takeover of Kiva and Twitch. Moreover, with the debacle of its Fire smartphone, Amazon took a \$170 million charge related to the write-down of costs associated with unsold Fire phones.

For years, shareholders had backed Bezos's view that big investments were required to gain market share as Amazon's business opportunity was huge and would pay off in the long run. While the shareholders had been tolerant with the company's investment strategy, some analysts felt that they were increasingly showing signs of their patience wearing out as Amazon disappointed them with poor profits in 2014. Someday, investors would demand profits and that may cause Amazon to increase prices for almost everything, leading to a reduced pace of growth. *"Bezos seems driven by legacy, so it's unlikely he'll be content until Amazon is the last giant standing. Unfortunately for that dream, there is a little thing called competition and anti-trust legislation, which puts an inevitable cap on how big Amazon can be without being split apart. Nothing lasts forever, let alone grows forever. Eventually, Amazon's growth will stop, and then Bezos won't be able to hold off his investors any more. They will want their pay off, which means the firm will no longer be able to hold onto the lead over its rivals on price and innovation,"*⁵⁹ said Gale.

However, Bezos remained undaunted. He said Amazon's business model would continue to be to invest in its future. According to him, *"If you're going to take bold bets, they're going to be experiments. And if they're experiments you don't know ahead of time if they're going to work. Experiments are by their very nature prone to failure. But a few big successes compensate for dozens and dozens of things that didn't work. I've made billions of dollars of failures at Amazon.com. None of those things are fun, but they don't matter. What really matters is that companies that don't continue to experiment—companies that don't embrace failure—they eventually get in a desperate position, where the only thing they can do is make a 'Hail Mary' bet at the very end."*⁶⁰

THE ROAD AHEAD

Going forward, the company planned to launch new digital products and service categories, build more

fulfillment centers, power AWS, and expand the Kindle Fire Ecosystem. The company also planned to hire 100,000 people in North America for the holiday season.

In July 2015, Amazon surpassed Wal-Mart as the world's largest retailer by market value after a surprise second quarter profit that led to a surge in the company's stock value. Amazon shares rose 17%, giving the company a market value of \$262.7 billion, compared to Wal-Mart's market capitalization of \$233.5 billion. After it posted two consecutive quarterly profits in 2015, analysts noted that Amazon was a company capable of both investing in itself and sustaining long-term profits. Though, according to them, going forward, Amazon had a number of competitive weapons in its arsenal to drive customer loyalty and sustain market position, the battle would be tough as competitors were set

to give the company a hard fight. The challenges that the company faced could severely threaten its business model, they added. About the challenges facing Amazon, Semil Shah, a columnist, had once questioned, "Will their research arm at A9 Labs continue to provide the company with better science and experimentation? Will AWS continue to mint money for the company as enterprise shifts to hybrid cloud management models? Will the company be able to maintain its ability to execute across so many different types of business lines, let alone maintain focus? What types of acquisitions will it make? Will they stumble with respect to logistics as they bring their brand offline and local? Will they be able to carve out a sustainable piece of the mobile device ecosystem where Apple and Google have a headstart, and where Facebook most likely has to enter?"⁶¹

ENDNOTES

¹ Wal-Mart was the largest retailer in the world with annual net sales of \$482 billion in the fiscal year ended January 31, 2015. It operates a chain of retail stores in various formats worldwide.

² Shannon Pettypiece, "Amazon Passes Wal-Mart as Biggest Retailer by Market Value," www.bloomberg.com, July 24, 2015.

³ Spencer Soper, "Amazon Posts Surprise Profit; Shares Soar," www.bloomberg.com, July 24, 2015.

⁴ Wedbush Securities Inc. is a US-based financial services and investment firm.

⁵ Borders, Inc. is an international bookseller based in Ann Arbor, Michigan, US.

⁶ Target Corporation is one of the leading discount retailers in the US.

⁷ In 2005, Bezos launched Amazon Prime, a membership program which offered customers a free two-day shipping on their purchases for a fee of \$79 per year. In 2014, Amazon raised the annual fee for the Amazon Prime membership by \$20 to \$99, attributing the hike to an increase in fuel and shipping costs.

⁸ Fire TV is a set-top box that plugs into HDTV for easy and instant access to Netflix, Prime Instant Video, Hulu Plus, and low-cost video rentals.

⁹ "Amazon.com Announces Fourth Quarter Sales up 15% to \$29.33 Billion," <http://phx.corporate-ir.net>, January 29, 2015.

¹⁰ Mark W. Johnson, "Amazon's Smart Innovation Strategy," www.businessweek.com, April 12, 2010.

¹¹ Innosight LLC is a US-based strategic innovation consulting and investing company.

¹² William C. Taylor, "Who's Writing the Book on Web Business?" www.fastcompany.com, October 31, 1996.

¹³ JP Mangalindan, "Amazon's Core? Frugality," <http://fortune.com>, March 26, 2012.

¹⁴ Adam Gale, "Will Amazon Ever Be Profitable?" www.managementtoday.co.uk, July 15, 2015.

¹⁵ This feature allows registered users to place an order by clicking just one button. It is not necessary for the customer to repeatedly fill in shipping and credit card information while buying products.

¹⁶ The Listmania feature allows customers to share compiled lists of products with other consumers. These lists may be created using any product sold or offered on Amazon.

¹⁷ Gold Box highlights special deals offered by Amazon by the day, hour, or availability.

¹⁸ Windowshop View allows users on the website to browse products and view them in a 3D-simulated environment to get the feel of walking through an aisle.

¹⁹ A new customer support feature called Mayday was launched on the company's new Kindle Fire HDX tablet in September 2013. The Mayday button enables customers to connect to a live customer support professional for help with any type of product query within 15 seconds, 24/7, free of charge.

²⁰ In November 2013, Amazon in collaboration with US Postal Service rolled out its One Day Delivery service to deliver packages to Amazon Prime members on Sunday. The

service was initially started in Los Angeles and New York and later extended to Dallas, Houston, New Orleans, and Phoenix.

²¹ In April 2014, Amazon launched a new device called named Amazon Dash that allowed customers to add groceries and household goods to their shopping lists using the AmazonFresh service. The Dash is a wand-like wireless device that includes a microphone and a barcode scanner, enabling customers to add items to an AmazonFresh shopping list by scanning a product's bar code or speaking its name.

²² Amazon Locker is a self-service delivery location where customers can pick up and return their Amazon orders at their convenience with no additional costs. These lockers are available in a variety of locations throughout the US.

²³ In 2013, Amazon launched a new customer service tool called Automatic refunds where it proactively refunded customers if it felt that its customer experience was not up to the mark.

²⁴ www.statista.com/statistics/237810/number-of-active-amazon-customer-accounts-worldwide/

²⁵ Ron Kaufman, "Amazon Does Not 'Deliver Customer Service,' They Build Powerful Partnerships," <http://ronkaufman.com>, June 9, 2015.

²⁶ Verdict Retail is a UK-based retail consultancy.

²⁷ Thomas Hobbs, "Amazon at 20: The Brand, the Challenges and the Future," www.marketingweek.com, July 15, 2015.

²⁸ "Amazon and the 'Profitless Business Model' Fallacy," www.eugenewei.com, October 26, 2013.

²⁹ Jacob Donnelly, "Amazon: Its Business Model Explained," <http://seekingalpha.com>, October 27, 2014.

³⁰ Greg Bensinger, "Amazon's Spending Leads to Biggest Quarterly Loss in 14 Years," www.wsj.com, October 23, 2014.

³¹ Megan Geuss, "Amazon Reports Modest Q4 Earnings and 2014 Loss, but Stock Soars," <http://arstechnica.com>, January 30, 2015.

³² *Slate* is a daily online magazine.

³³ Matthew Yglesias, "Amazon Profits Fall 45 Percent, Still the Most Amazing Company in the World," www.slate.com, January 29, 2013.

³⁴ <http://www.sec.gov/Archives/edgar/data/1018724/000119312512161812/d329990dex991.htm>

³⁵ Amazon AutoRip gives customers free MP3 versions of CDs and vinyl music they purchase from Amazon. More than 350,000 albums are available for AutoRip.

³⁶ Amazon Cloud Drive lets customers securely store their digital files on the Amazon cloud and access them anywhere using the Cloud Drive desktop client or any web browser.

³⁷ Amazon stow assigns products across the warehouse based on prediction of order frequency. The items are stored in a random order at fulfillment centers so that items on the same order are nearer to each other and could be picked up easily.

³⁸ At the end of the packing process, packages move along conveyor belts to the SLAM where the package is weighed, the barcode on the package is scanned, and an address label is printed and added to the package. The whole process takes less than 1 second per package.

³⁹ Amazon Storyteller is a new application from Amazon Studios that turns a movie script into a storyboard. Users can choose the backgrounds, characters, and props to visually tell a story.

⁴⁰ Amazon Studios is the movie and series production arm of Amazon.

⁴¹ Kindle Direct Publishing provides authors the opportunity to publish their books and earn revenue.

⁴² In July 2014, Amazon launched a new store for 3D printed products, which has over 200 listings that can be customized by material, color, style, text, or size.

⁴³ Echo is a hands-free device designed around voice wherein a user asks for information and gets answers instantly.

⁴⁴ "Why I, Jeff Bezos, Keep Spending Billions on Amazon R&D," www.businessinsider.com, April 27, 2011.

⁴⁵ Daniel Lyons, "We Start with the Customer and We Work Backward," www.slate.com, December 24, 2009.

⁴⁶ "Amazon (company): What Is Amazon's Approach to Product Development and Product Management?" www.quora.com, May 18, 2012.

⁴⁷ Drop shipping is a supply chain management technique in which the retailer does not keep goods in stock, but instead transfers customer orders and shipment details to either the manufacturer or a wholesaler who then directly ships the goods to the customer.

⁴⁸ "Amazon Global Fulfillment Center Network," www.mwpl.com, 2015.

⁴⁹ A fitness function is a single key business metric to provide the team with focus and accountability that the senior executive team agrees on with the team lead.

⁵⁰ Phil Wahba, "Amazon Gets Needed Boost in 2014 from Outside Sellers," <http://fortune.com>, January 5, 2015.

⁵¹ Ryan Mac, "Jeff Bezos' Letter to Shareholders: 'Don't Just Swipe Right, Get Married (A Lot)," www.forbes.com, April 24, 2015.

⁵² Google Shopping is a shopping search engine from Google that allows users to find products for sale from online merchants and compare prices between different vendors.

⁵³ Alibaba.com is one of the leading Chinese e-commerce companies.

⁵⁴ Apple Inc. is a leading US-based technology company that designs, manufactures, and markets mobile communication and media devices, personal computers, and portable digital music players and sells a variety of related software, services, and third-party digital content and applications.

⁵⁵ Google Inc. is one of the biggest technology companies in the world involved in Internet-related services and products, computer software, and telecommunications equipment.

⁵⁶ George Anderson, "Is Amazon Prime Suffering from Its Own Success?" www.forbes.com, August 1, 2014.

⁵⁷ Steve Denning, "The Future of Amazon, Apple, Facebook and Google," www.forbes.com, April 9, 2015.

⁵⁸ "Is This the Biggest Threat to Amazon's Business Model?" www.fool.com, June 8, 2015.

⁵⁹ Adam Gale, "Will Amazon Ever Be Profitable?" www.managementtoday.co.uk, July 15, 2015.

⁶⁰ Jillian D'onfro, "Jeff Bezos: Here's Why It Wouldn't Matter If the Fire Phone Were a Flop," www.businessinsider.in, December 2, 2014.

⁶¹ Semil Shah, "The Future of Amazon: Ambitious, Diverse, and Expansive," <http://techcrunch.com>, September 9, 2012.