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Book Wise

Jeff Bezos, chief executive of Amazon, has turned the company he founded into the world's largest online retailer. Barry Mansfield examines the radical thinking that helped Bezos put Amazon in the dominant position it occupies today.

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The first modern, printed book arrived via the Gutenberg press in the 1430s and the book has remained relatively unaltered for more than five centuries. However, Jeff Bezos, founder of Amazon, hopes to change all that with the Kindle, a new device for reading 'digital books' that has been dubbed the 'iPod of reading'.

The foray into consumer electronics is a stealth departure for the world's largest online retailer, which sells everything from books and DVDs to kitchenware and mobile phones, and brought in estimated revenue of more than $13bn in 2007.

It is three years since the company, having recognised books as 'the last bastion of analogue', began work on the Kindle, hoping to come up with something transformative for electronic reading. The device downloads volumes via a 3G connection. Some 90,000 digital books, including bestsellers, are currently available for customers

"The real book is so highly evolved and so elegantly suited to its purpose that it is hard to improve on," says Bezos. "The book's most important feature is that it disappears. When you are reading you don't notice the glue or the stitching. You go into this pleasurable mental state. Our top design objective for Kindle was to replicate that aspect of the book."

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The commercial challenges faced by the Kindle, which is priced at $400, reflect the tough operating conditions endured by the rest of the company's business. With digital books for the Kindle going for $10 and monthly newspaper subscriptions about the same, Amazon is working to a tiny profit margin, while also bearing the expense of paying operators for book data transmission. However, Amazon says it hopes to make money on older titles that offer more respectable profit margins.

This echoes Amazon's high-profile launch of *Harry Potter and the Deathly Hallows* in 2006, when Bezos told shareholders: "Shareholders shouldn't expect to make any money on Harry Potter seven."

UNIQUE APPROACH

Plainly stated satisfaction with low operating profits is a strong Bezos character trait, one that has seduced customers and, at times, frustrated investors. The 43-year-old founder of Amazon is firmly focused on his oft-stated ambition of developing 'the planet's most customer-centric company', apparently placing little emphasis on turning a profit over the short term.

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Nevertheless, 2007 saw a remarkable turnaround in Amazon's bottom-line performance. For the first nine months of last year, the company's net income nearly tripled from the same period of 2006, while sales rose by 36%.

Bezos himself has described his approach as back-to-front compared with the practice of other companies, which aspire to serve their customers by deploying the capabilities they already have.

"We want to figure out what customers want and how to give it to them, no matter how difficult that is," Bezos says.

This approach seems to have paid off. Sales are expected to pick up another 35% this year, while Amazon's operating profit is expected to soar more than 70%, according to Wall Street forecasts. Meanwhile, Bezos has continued to invest in new offerings, such as web services, an online marketplace for downloaded music, films and TV programmes, as well as the Kindle, which sold out its initial production run in late November.

Investors have been impressed by the results. Amazon's stock, despite a sudden but apparently short-term decline last November, more than doubled during 2007. Amazon shares hit the $100 mark in late October, their highest level since their dotcom heyday, and the investor community's love affair with Amazon appears to have been reignited.

Accordingly, Bezos has cheerily re-entered the public spotlight. He was selected as Person of the Year by *Time* magazine in 1999, four years after Amazon's launch and, incredibly, four years before the company was able to announce its first annual profit. He has appeared on numerous magazine covers and made countless television appearances and keynote addresses.

DRIVEN CHARACTER

Mainstream media on both sides of the Atlantic have painted a picture of Bezos as a hyperactive, slightly awkward, technology whizz kid with a piercing signature laugh. In a photo shoot for the cover of *Fortune* magazine several years ago, photographers captured Bezos bouncing on a trampoline with a bottle of water on his head. He is a self-confessed nerd, but he has the resources to turn his off-the-wall ideas into reality. Bezos' most famous hobby is a private space-flight venture called Blue Origin, which has its own launching ground on a sprawling 165,000-acre plot of land he owns in West Texas.

Ex-Amazon employees who have worked closely with Bezos, however, say his public image does not capture the intensely driven nature of a man who has accomplished the rare feat of building a company he founded in his home garage into a multinational corporation, while remaining in place as chief executive for the duration.

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"He can get very intense and is laser focused. There's a level of intensity that is constant, always switched on," says Joy Covey, who was chief financial officer at Amazon in its pre-initial public offering days between 1996 and 2000 and who is still in touch with her former boss. "He's a super-rational guy, who'll thoroughly analyse the situation and figure out the logical way to go. He has grown into a big-company CEO."

Bezos' obsession with figures is legendary in the business. Before founding Amazon he had pursued a career with Wall Street players such as Banker's Trust and DE Shaw. Bezos is known to favour decisions based on data, often reminding his management team that, in the decision-making process, coming up with the correct numbers can put the most junior person in a company on the same level as top executives.

He is also known to come down on his managers hard if they fail to arrive at meetings armed with the appropriate data. Former employees have observed that even his trademark laugh – variously described as "braying", "a series of exclamation points" and "a marketing tool" – takes on a wholly different tone when Bezos is not in the best of moods.

CUSTOMER SERVICE

From the very beginning, Bezos has been determined to set Amazon apart through superior customer service. His method of choice for selling the Harry Potter series provides a useful illustration of this. particularly the launch of *Harry Potter and the Deathly Hallows*, the seventh and final instalment of the massively popular fantasy series, which has become one of the best-selling titles in history. Amazon alone sold more than 2.2 million copies of the book in advance of its release, bringing in more than $40m in revenue.

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Bezos, however, saw the Harry Potter release not as an opportunity for a quick profit but as a vehicle for demonstrating Amazon's expertise as a retailer, effectively betting that customers would be impressed with what they saw and return for future purchases. Amazon slashed the price of *Harry Potter and the Deathly Hallows* by close to 50%, forcing other retailers to follow suit, making the title one of the least profitable items of the year for the retail side of the book business.

"I love the fact that we had Harry Potter seven, because it was ideal for showcasing our skills as a retailer to all those customers and bringing them firmly onboard by demonstrating for them what we do, and how well we do it."

BUILDING LOYALTY

Building a base of loyal customers has long been a top priority for Bezos, and Amazon has paid a heavy price for this. From its launch in 1994, the company sold books, Amazon's first product line, at prices competitive with, and often below, those of long-established US retailers such as Wal-Mart and Barnes & Noble.

Bezos himself is behind numerous highly expensive customer recruitment drives. For example, in 2003 the

company adopted a free shipping policy for all orders over $25. Two years later, the company kick-started Amazon Prime, which offers customers free two-day express shipping for an annual fee of $79 a year. Bezos said the company's shipping fee structure devoured more than $600m from its revenue during the last year.

LONG-TERM MODEL

The customer-friendly mix of discount prices, free shipping and heavy investment in technology has kept Amazon unprofitable for nearly a decade. The company reported its first annual profit in 2003 and has managed to stay in the black ever since, even though spending as a proportion of sales has increased. For example, technology spending represented more than 6% of total revenue in 2006, compared with 4% in 2004.

Before the free shipping initiative, Bezos had made an even more controversial move. He decided to allow other retailers to promote their goods on Amazon's product pages. In some instances, the prices of competing retailers undercut Amazon's prices, resulting in lost sales.

The logic behind the move, according to Bezos, was that such information would create an overwhelmingly positive experience for customers, whose future purchases could make up for the near-term loss. "This was a very controversial decision inside Amazon," Bezos admitted when he was confronted by a shareholder on the practice. "But from a company-wide point of view, our view has always been to say, 'Let's be open-minded about these kinds of decisions and cut through the complex thinking by just asking what is better for the customer.' If we side with the consumer on that kind of decision, over time it will force the right kind of behaviours on ourselves."

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The following people contributed to this article:

- Jeff Bezos, CEO, Amazon

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