AMAZON: THE TOTAL RETAILER[1]

"We have had three big ideas at Amazon that we have stuck with (…), and they are the reason we are successful: Put the customer first. Invent. And be patient. What is dangerous is not to evolve."

Jeff Bezos, Amazon's CEO.

In 1999, Time Magazine named Bezos *Person of the Year*, honoring his success in popularizing online shopping. Eighteen years later, Bezos topped the Forbes magazine list of richest men in the world, surpassing Microsoft founder Bill Gates[I].

Amazon had developed a successful e-commerce business and become the largest virtual store on the planet. It certainly was a story of success, albeit not without failures and the misgivings of some analysts.

From the beginning, Jeff Bezos's strategy was to prioritize cash flow generation over net profit. This favored accelerated growth by creating or acquiring new businesses, investing in innovation, and expanding internationally. The latest results revealed a turning point where, despite Amazon's rapid deployment of new initiatives, the company no longer spent all the money it made.

In the beginning, Amazon focused on the online world, gradually moving toward a brick and click model[2] with the opening of bookstores in several US states[II] and the more recent – and surprising, purchase of the American organic food chain Whole Foods[III].

The acquisition of the 450 Whole Foods supermarkets was the most significant purchase made by Amazon to that date, and it sent a message both to food retailers and all other global businesses. Did the future of retail lie on an omnichannel model? What position

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[1] Case published by the Research Division of San Telmo Business School, Spain. Prepared by professor Enrique Garrido Martínez in collaboration with Anylú Vidal Romero as a research assistant. This case is developed only as the basis for class discussion. Cases are not intended to illustrate any judgement on the effective or ineffective management in a specific situation.
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[2] Companies with brick & mortar and online stores.

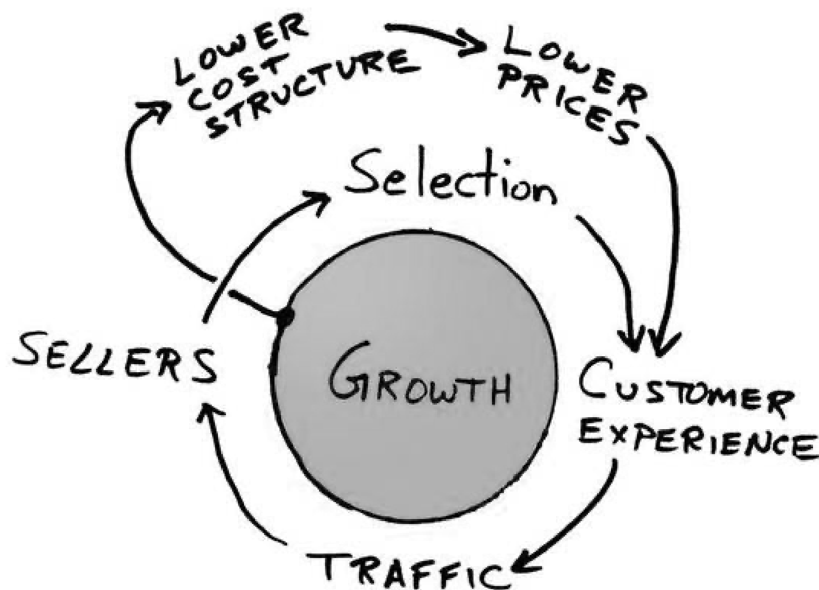
and strategy should Amazon's main competitors take? What did small businesses require in order to adapt to these new rules of the game?

AMAZON: FROM IDEA TO REALITY

In July 1995, after reading about the spectacular growth of online commerce expected in the future, Bezos created the Amazon website based in Seattle, Washington, to sell books online. His goal was to create a virtual store with almost unlimited supply and tight fixed costs offering customers convenience, low prices, and a wide variety of titles. In only two months, Amazon's sales reached 20,000 USD per week and delivered books within the US and to 45 other countries (see Exhibit 1: milestones in Amazon's history).

The Business Model

Bezos captured his business model on a paper napkin with the following drawing[IV]:



This sketch has led Amazon's path since its inception. Growth was at the heart, underpinned by four fundamental pillars: wise product selection, consumer experience, traffic, and sellers. A lower cost structure would allow for lower prices, which would improve consumer experience and increase traffic, which would, in turn, attract more suppliers and enhance product assortment. A virtuous circle specially designed to fuel growth.

For Amazon, consumer experience was based on the following aspects: assortment, interaction with the website (ease of search, availability of pictures and product descriptions, other buyers' reviews, purchase history, and suggestions), competitive prices, secure payment, fast and reliable delivery, product quality, and customer complaints management.

AN OBSESSION WITH GROWTH

In line with his business model, Bezos placed his bets on growth at all costs and gradually incorporated other products into Amazon's assortment, while at the same time expanding internationally. Amazon was among the first companies to sell consumer goods over the Internet. The products the platform sold soon included music, movies, electronics, and FMCG[3]. In its expansion, Amazon established independent websites for Canada, the United Kingdom, Australia, Germany, Austria, China, Japan, Spain, Netherlands, Brazil, India, and Mexico.

Nevertheless, Amazon's trajectory had not been without difficulties. From the beginning, Bezos's mind was set on building "*the everything store,*" but he had had to deal with financing issues and manage some business failures at first, such as the jewelry store and the auction website that was intended to replace eBay. He also had to weather the storm of the dotcom bubble[4].

Buying online and offline companies involved both in software or hardware had been a distinctive feature of the Amazon model. After the 2000 crisis, there was a slowdown in acquisitions, and Amazon managed to show profits for the first time in the fourth quarter of 2001: a meager 5 million USD (equivalent to one cent per share), with revenues of over 1 billion USD. Turning numbers black, albeit moderately, proved to skeptics that this unconventional business model could be successful.

The pace of investment accelerated in 2005, and the company spent more than 2 billion USD on acquisitions around the world over the following two decades[V]. This eagerness to grow and add technology typically showed in numbers hovering break-even point, with profits in some quarters, but mostly losses (see Exhibit 2: Evolution of sales and net profit).

Results started to be consistently positive in 2015. In February 2018, Amazon announced profits for eleven straight quarters[VI], forever vanishing the reputation it had on *Wall Street* of being a company that lost money systematically. With revenues of nearly 38 billion USD and net profits of 197 billion USD, 30% higher than analysts[VII] expected, Amazon's market value was above other retailers that historically dominated the US market, such as giant Wal-Mart or Sears (see Exhibit 3: evolution of the market value of the leading retailers in America).
The search for the best tax conditions in a global business was complex, and Amazon pushed it to the limit or beyond the law. For example, in October 2017, the European Commission demanded that Amazon return 250 million EUR (plus interest) of unpaid taxes, claiming that the company had taken advantage of illegal tax aids in Luxembourg,

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[3] Fast-moving consumer goods.
[4] The dotcom or Internet companies bubble was a phenomenon of generalized economic collapse caused by a rapid valuation of these companies, followed by a sharp devaluation. The bubble burst between 2000 and 2002 and led the Nasdaq technology exchange to lose 70% of its value. It is estimated that almost five thousand Internet companies disappeared to bankruptcy, mergers, or acquisitions during this period.