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*Section* 8

**IT DIDN'T HAPPEN  
OVERNIGHT, BUT  
IT DID HAPPEN**

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# Amazon

## Think biggest

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**A**MAZON IS ONE OF THE BEST-KNOWN INTERNET START-UPS, with a share price that soared so high in 1999 that *Forbes* valued its founder, Jeff Bezos, at over \$10 billion.

When the dot-com bubble burst, many expected Amazon, which had spent billions without showing a profit, to implode and become an Internet morality tale. The man *Time* magazine named its person of the year in 1999 was surely about to look pretty dumb (and poor).

Except Bezos is neither. While the share price was certainly unsustainable, the business plan was not, and Amazon emerged from the crash in stronger shape than ever.

Jeff Bezos was always a smart kid. At eight, a test confirmed he was especially bright and his parents—mother Jackie and stepfather Miguel—enrolled him in a program for gifted children in Houston. He earned a degree in electrical engineering and computer science from Princeton, where in 1985 he was one of the first people outside the military to encounter the Internet.

Early in his career, Bezos demonstrated an unusual ability for marrying technology with business, at twenty-six becoming the youngest-ever vice president at Bankers Trust. He then joined the hedge fund DE Shaw and Co., one of the first companies to use computers to predict stock prices.

In 1994, Bezos famously came across a startling statistic: Internet usage was now growing at 2,300 percent a year. That, Bezos decided, represented a hell of a growing market. After looking closely at five different kinds of product, including CDs, he

decided that books were the way to go. "Books are incredibly unusual," he said in 1999. "There are so many of them you can build a store online that simply couldn't exist any other way." (His favorite novel, incidentally, is *The Remains of the Day*.) Bezos hurriedly visited a booksellers' convention in Los Angeles to absorb the basics of the business and, according to *Time* magazine, persuaded his parents to lend him \$300,000 they had saved for their retirement.

Bezos rented a house in suburban Seattle, which was both an IT hub and close to major book distributors. Working from his garage with four employees, Bezos, then age thirty, launched the Amazon.com website in July 1995, and in his first week of business took orders for \$12,438 worth of books. By September, he had sales of \$20,000 a week.

Then things went completely crazy. *Time* magazine named Amazon one of its ten best sites of 1996. On May 15, 1997, Amazon stock floated at \$18, raising \$54 million. An Internet company based on an easily understood idea that was actually bringing in cash, Amazon.com was irresistible to investors. At its peak in 1999, one share was worth \$113. Bezos soon realized Amazon needed its own warehouses so it could control the whole transaction. It would no longer be a middleman, but a proper retailer that carried stock (even if it had no physical shops). Bezos expanded, both virtually and physically, swallowing up some other dot-coms and building eight warehouses capable of carrying three million books each.

The share price did not survive the dot-com crash, at one point hitting \$5.97 in 2001 and wiping seven billion dollars off Bezos's paper worth, and he was forced to close down two warehouses and lay off 15 percent of his employees to reduce costs.

One of Bezos's favorite nicknames for the company was Amazon.org (the Internet suffix for a non-profit organization). Amazon accumulated enormous long-term debt (carrying \$2.1 billion

by the end of 2001), though it finally made its first—world famous—quarterly profit in the fourth (Christmas) quarter of 2001. It posted its first full-year profit in 2003 (of just \$35 million), then made a more reassuring \$588 million profit in 2004 and has begun to pay back its long-term debt, though, with turnover close to \$7 billion, the profit margin is still small. (Bezos, who owns around a quarter of the company, is now worth some \$4 billion.)

Today, constant improvements to the computer-run warehouses, a policy of savage discounting (which Bezos prefers to advertising) and discounted shipping have increased Amazon's operating profit to around 5 percent.

A growing proportion of its income comes from partnerships with companies such as Toys "R" Us, uses Amazon as its online portal. While still primarily a bookseller, Amazon now carries an enormous number of DVDs and CDs, plus a department-store-sized selection of clothes, toys, and electronics. Eventually, Bezos says, Amazon will offer just about anything that can be mailed.

## NOTES

**"Books are incredibly . . ."** *Business Wire*, Transcript of Sam Donaldson interview with Amazon.com's Jeff Bezos, 12.21.99.

## REFERENCES

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