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Who's Writing the Book on Web Business?

For Jeff Bezos, founder and CEO of Amazon.com, the Web is serious business....



BY WILLIAM C. TAYLOR 7 MINUTE READ

Jeff Bezos was a Wall Street trader and programming star, a top executive at fast-growing D.E. Shaw & Co., when a startling statistic caught his eye: World Wide Web usage was growing at 2,300% per year. He remembers his immediate reaction: "Anything growing that fast is going to be ubiquitous very quickly. It was my wake-up call."

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That was the summer of 1994. Bezos, now 32, quit D.E. Shaw and began methodically analyzing the most promising opportunities for Internet

commerce. He concluded that online retailing was the next big thing, and that selling books over the Web was the first big retail opportunity. He moved to Seattle, raised several million dollars from private investors, and created the world's largest online bookstore.

Amazon.com opened for business in July 1995. It has since become one of the most admired and talked-about companies on the Web. Bezos's outfit is no empire, but its influence far exceeds its size. The company recently attracted a \$10 million investment from Kleiner Perkins Caufield & Byers, the venture-capital firm behind Sun Microsystems, Netscape, and other flagship companies of the Internet. Alberto Vitale, chairman of Random House, recently proclaimed that Amazon.com "is the beginning of a completely new way to buy books."

Why the fuss? Because Amazon.com has a business model that is easy to understand, hard to copy, and capable of sustaining dramatic growth. And Bezos himself is unusually articulate about what it takes to succeed on the Web — bubbling over with strong views, compelling data, big plans.

In this interview, Bezos offers a collection of hands-on insights for making it on the Web.

So many Web companies are struggling. Why is Amazon.com flourishing?

Because we're delivering a value proposition that can't be delivered any other way. It's still so inconvenient to use the Web, the technology is still so primitive, that you have to be able to tell your customers, "The Internet is the only way to deliver this service." If you can do business any other way, you should.

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I was drawn to online retailing because I understand the business model: you buy products at one price and sell them at a higher price. But what

products? In the summer of 1994, when the Web first caught my attention, I made a list of 20 product categories — books, music, computer hardware and software — and investigated the merits of selling them online. Books were far and away the best category.

What's special about books?

There are so many of them! There are 1.5 million English-language books in print, 3 million books in all languages worldwide. This volume defined the opportunity. Consumers keep demonstrating that they value authoritative selection. The biggest phenomenon in retailing is the big-format store — the “category killer” — whether it's selling books, toys, or music.

But the largest physical bookstore in the world has only 175,000 titles. We have 1.1 million titles. There's no way you can build a store to handle 1.1 million titles. And you can't offer our selection in a catalog. If you printed the Amazon.com catalog, it would be the size of seven New York City phone books. The only way to build a 1.1 million-title bookstore is on the Web.

Is selection the only reason people come to your site?

Bill Gates laid it out in a magazine interview. He said, “I buy all my books at Amazon.com because I'm busy and it's convenient. They have a big selection, and they've been reliable.” Those are three of our four core value propositions: convenience, selection, service. The only one he left out is price: we are the broadest discounters in the world in any product category. But maybe price isn't so important to Bill Gates.

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These value propositions are interrelated, 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 turn our inventory 150 times a year. That's like selling bread in a

supermarket. Physical bookstores turn their inventory only 3 or 4 times a year.

Web technology, primitive as it is, creates all kinds of possibilities for what an online bookstore can do. How do you determine which features Amazon.com needs?

I'm not interested in retrofitting the physical bookstore experience in the virtual world. Every few weeks, someone around here asks, "When are we going to do electronic book signings?" We still haven't done them. The experience of book signings works best in the real world.

And there are so many things we can do online that can't be done in the real world. We want customers who enter Amazon.com to indicate whether they want to be "visible" or "invisible." If they choose "visible," then when they're in the science fiction section, other people will know they're there. People can ask for recommendations — "read any good books lately?" — or recommend books to others. I'm an outgoing person, but I'd never go into a bookstore and ask a complete stranger to recommend a book. The semi-anonymity of the online environment makes people less inhibited.

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. If you're a big mystery reader, we can show you the three hottest new mystery novels and highlight one from an author you've bought before.

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.

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You've explained the competitive opportunity. How do you create competitive advantage against potential rivals?

People who just scratch the surface of Amazon.com — “oh, you sell books on the Web” — don't understand how hard it is to actually be an electronic merchant. We're not just putting up a Web site. There are very few off-the-shelf tools that help do what we're doing. We've had to develop lots of our own technologies.

For example, customer service is a critical success factor in any retail business. But it's absolutely make-or-break online. If you make customers unhappy in the physical world, they might each tell 6 friends. If you make customers unhappy on the Internet, they can each tell 6,000 friends with one message to a newsgroup. If you make them really happy, they can tell 6,000 people about that. You want every customer to become an evangelist for you.

We do 90% of our customer service by email rather than by telephone. Fourteen of our 110 employees do nothing but answer email from customers. If we had an 800-number call center, 10 companies would be competing to sell us high-quality software. There are no companies selling software to manage email centers. So we had to develop our own tools. In a way this is good news. There are lots of barriers to entry.

You moved from New York to Seattle to start this business. Why?

It sounds counterintuitive, but physical location is very important for the success of a virtual business. We could have started Amazon.com anywhere. We chose Seattle because it met a rigorous set of criteria. It had to be a place with lots of technical talent. It had to be near a place with large numbers of books. It had to be a nice place to live — great people won't work in places they don't want to live. Finally, it had to be in a small state. In the mail-order business, you have to charge sales tax to customers who live in any state where you have a business presence. It made no sense for us to be in California or New York.

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Obviously Seattle has a great programming culture. And it's close to Roseburg, Oregon, which has one of the biggest book warehouses in the world. We thought about the Bay Area, which is the single best source for technical talent. But it didn't pass the small-state test. I even investigated whether we could set up Amazon.com on an Indian reservation near San Francisco. This way we could have access to talent without all the tax consequences. Unfortunately, the government thought of that first.

Is the rise of online retailers like Amazon.com bad news for traditional retailers?

Amazon.com is not going to put bookstores out of business. Barnes & Noble is opening a new superstore every four days. Borders is opening a new superstore every nine days.

I still buy half of my books at bookstores. Sometimes I want the book right now, not tomorrow. Sometimes I just like to get out of the office and go to a nice environment. What you're going to see — and it's happening already — is that physical bookstores will become ever-nicer places to be. They are going to have more sofas, better lattes, nicer people working there. Good bookstores are the community centers of the late 20th century. That's the basis on which they're going to compete. There is plenty of room for everyone.

William C. Taylor is one of the founding editors of Fast Company.

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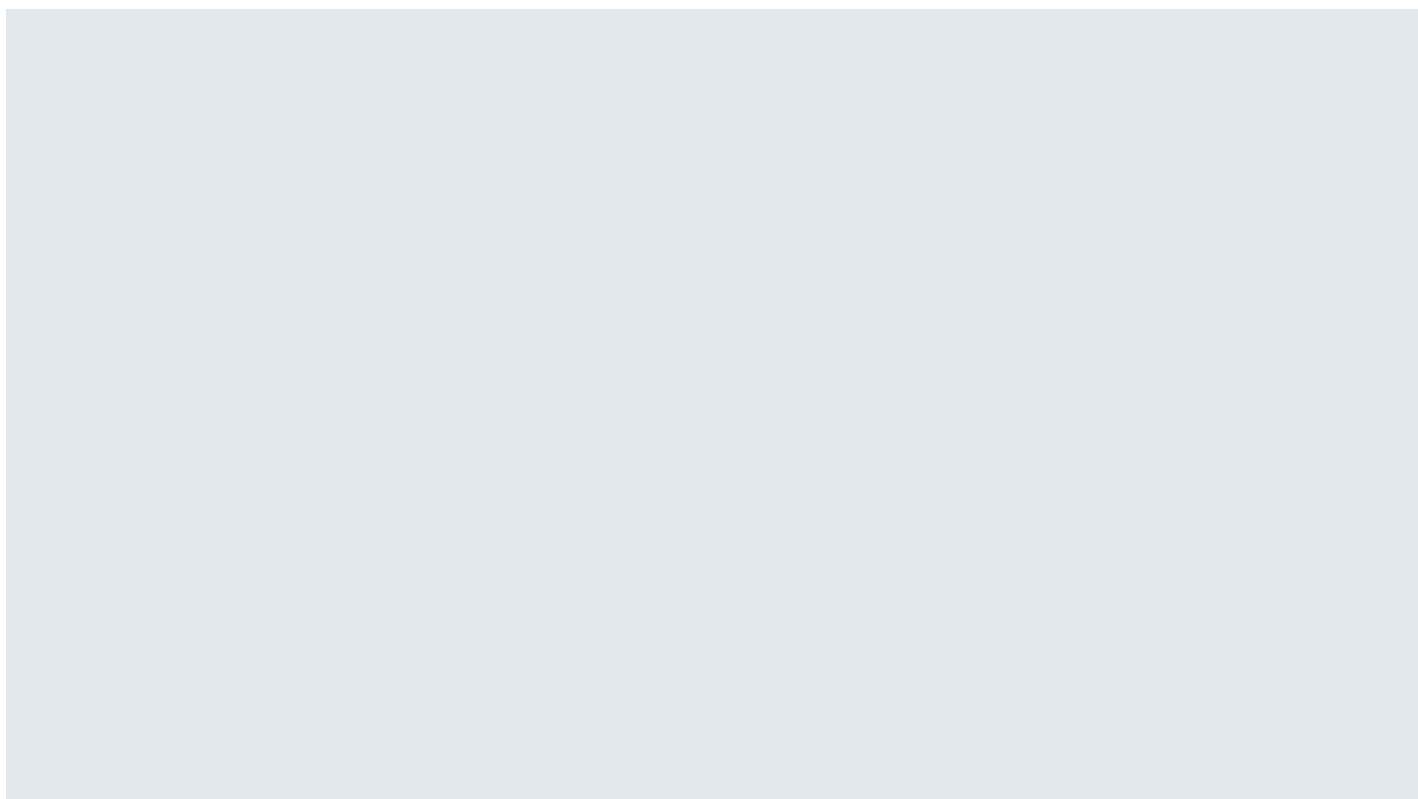
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