**Change And Disruption**

**An Amazon.com Case Study**

Support Notes

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The purpose of these support notes is to provide a basis for activity & discussion, more background and suggestions for further viewing. Please select, add to/edit the material as required.

**OTHER RELEVANT FILMS & CLIPS:**

We have a number of other films that show different aspects of this theme (use ‘search’ to find):

**Global Change Strategies:** The Car Industry

**Managing Change In Organisations**

**Google: The Trouble With Success**

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**Synopsis**

**Key Topics**

* Disruptive Innovation
* Marketing Strategy
* Behaviour of Multinationals
* History Of Amazon.com

The rise and rise of Amazon.com since start-up in 1994 is the classic case study in disruptive change. First an on-line retailer, then a platform for other sellers, Amazon has been guided by the restless spirit of its founder Jeff Bezos. Bezos thinks long term – he expects his people to challenge, to constantly embrace change. Amazon is at the cutting edge of technology – but it’s also based on old-fashioned values: a wide range at a keen price – and good service. The key, says Bezos, is focus on *customers*, not competitors.

**Disruptive Innovation** Amazon fits into the mould of classic ‘disruptions’: cases where new products or business models revolutionised the market – leaving old businesses in ruins. We look at classic cases of disruptive innovation, including the Model T Ford and the CD player.

**Internal Culture** To achieve such success Amazon needs the internal structure and culture to support that – that means empowering teams to get quick results. For Amazon, *bureaucracy*, not the competition, is the enemy.

***Too* Challenging?** But Amazon has its critics – who point to the zero-hours contracts of its warehouse staff, and the pressure it puts on its managers: an experiment in so-called ‘purposeful Darwinism’. Bezos says he is proud of the culture he has created – but does he demand too much?

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Worksheet

*[please edit this to suit your needs; Answers In Red]*

**Play Film from beginning**(stop at Part 2: *Customers Before Profits)* **then answer the following questions.**

1. When did Jeff Bezos set up Amazon.com?

1994

2. What does Bezos say about ‘risk’?

Risk is the necessary component of progress.

3. 20 years after start up, what were the yearly sales figures?

Over $135 billion.

4. What was the advantage, in Bezos’s eyes, to an on-line bookstore?

It could truly have universal selection.

5. In business terms, in what field has Amazon.com become a classic case study?

Disruptive innovation.

6. What was the ‘wakeup call’ that led Bezos to start Amazon.com?

Web usage in the spring of 1994 was growing 2300% a year.

7. What was his start-up cash? Where did most of it come from?

$300,000, from his parents.

8. Why did he decide to sell books initially?

‘Books are usual in one respect – there are more of them than there are products of any other category, and computers are good at organising such large selections of products and you could build something online that literally could not be built any other way.’

9. How did the largest physical bookstores compare to an online store in terms of storage?

The largest physical store can only carry up to 150,000 books, an online store can offer unlimited numbers.

10. What was the customer response?

In the first 30 days, they had orders from all 50 states and 45 different countries.

11. How many products does Amazon sell these days? How does that number grow?

Over 480 million, growing by 485,000 per day.

12. How many items did they sell in 2014?

Five billion.

13. How many customers do they have? How many buy once a month?

300 million. 80% buy once a month.

14. How many online shoppers search first on Amazon?

44%

15. How many employees are there at Amazon? How many robots?

Over 350,000 employees, over 45,000 robots.

16. What percentage of e-commerce sales did Amazon claim in the US in 2016? What ranking did that give them?

50% of sales – making them the 4th largest US company.

**Play Part 2 *Customers Before Profits*** *(stop at Part 3 The Great Disrupter)* **then answer the following questions.**

1. What ‘old fashioned values’ is Amazon.com’s business model based on?

A wide range at a keen price – and good service.

2. How does Bezos summarise his approach?

Focus on customers, not competitors.

3. What does Bezos say about customers?

They’re always dissatisfied, they pull you along, whereas if you’re competitor-obsessed, if you’re the leader – see everyone running behind you – maybe you slow down a little. Customers are always pulling you.

4. What are the ‘knowns’ about customers, according to Bezos?

‘They like low prices, big selection and fast delivery. Those things will be true 10 years from now, 20 years from now, so we can count on those things and put energy into them.’

5. Highlight some key aspects of the Amazon business model, especially in terms of turnover and profit margins.

Despite the high turnover, Amazon has low profit margins – because it’s 1) a retailer, it survives on whatever margin it adds to the cost of the product, and that margin has to be competitive. 2) Its world-wide distribution network is a major cost. 3) Bezos invests in the future, further affecting short-term profits.

6. What’s the overall aim with regard to customers, according to Bezos?

Building trust in the long term.

7. What is Bezos’s view regarding pricing?

 ‘Our profitability is not our customer’s problem. We don’t take the point of view that we’re going price products at a particular margin for ourselves. We say we’re going to price products competitively and if that means on that product we lose money that’s ok because we need to take care of the customer, earn trust… if we find we can’t ever make any money on that product we’ll stop selling it but we’re not going to make customers pay for any our inefficiencies.’

**Play Part 3 *The Great Disrupter*** *(stop at Part 4 Heavy Lifting Infrastructure)* **then answer the following questions.**

1. Where does the term *disruptive innovation* come from?

From the writings of business guru Clayton M Christensen in the 1990s.

2. What do we mean by disruptive innovation?

Cases where new products or business models revolutionised the market. It’s often based on new technology, but that in itself is not the key. It’s the business *application* of that technology.

3. How does the auto industry illustrate disruptive innovation?

The first automobiles did not disrupt the transport industry because they were expensive – they were the toys of the rich. But when Henry Ford *combined* the technology of the internal combustion engine with the systems of mass production – that was a revolution. It brought cars within the reach of the masses.

4. Give some other examples of disruptive innovation.

In the late 70s, the personal computer, that brought computing power onto the desk top and, ultimately, into the hand (iPhone). In 1990s: CDs replaced vinyl. Digital cameras replaced film based cameras. Digital typesetting swept aside typesetting.

5. Give a key characteristic of these innovations?

They often come from *outside* established businesses: who may be too big and slow to react to new opportunities. They may be too busy focusing on their competitors in the old market to want to risk new ideas.

6. Give examples of businesses that were too slow to react to these threats and why.

Kodak once the giant of the film and camera industry, held back on developing digital cameras for fear of cannibalising their own business in photographic film. It was a fatal hesitation – by 2012 they were filing for bankruptcy.

Nokia: at its peak in 2007 Nokia controlled 41% of the global handset market. By 2014 that was down to 15%. It sold its devices and services business to Microsoft. A giant had fallen – victim of the iPhone. A classic case of disruption – Apple had arrived from *outside* the traditional telecoms industry. Nokia had been too slow to see the possibilities of internet smartphones.

7. How does Amazon.com fit the paradigm?

A newcomer, using a new technology, blows away the old ways of selling – endless choice, low prices, delivery to your door. It put a bomb under the up-till-then cosy world of publishing and book selling.

8. What nickname did the critics give Amazon.com in the early days, and why?

Amazon.Toast. It was only a question of time, they said, before the big book retailers woke up to on-line selling.

9. How did Bezos respond?

‘Somebody wrote an article that said, you know, Amazon has had a great two year run but now the big boys have shown up and they’re going to steam roller them… and so we had an all hands meeting, and I said don’t be worried about our competitors, they’re never going send us any money anyway.. let’s be worried about our customers and stay heads-down focused.’

10. Name a significant development in 2007. What changes did it bring in? What boundaries were ‘blown away’?

Amazon launched the Kindle e-reader. Now it was competing against conventional book *publishers* as well as retailers. It created a platform for writers to self-publish. It created a demand for traditionally published books to be offered much more cheaply than physical books. The ‘great disrupter’ was simply blowing away all the old boundaries between retailers, publishers, writers and customers.

11. What effect was Amazon.com having on the book retailing sector by 2014?

The number of independent bookshops in the UK[fell below 1,000](https://www.theguardian.com/books/2014/feb/21/independent-bookshops-campaign) for the first time. By 2015 Barnes and Noble, the biggest conventional US book retailer, was in deep trouble. It had tried to hit back with its own website – but Amazon was just too good at the game. The other big rival, Borders, had already gone bust in 2011.

12. Why, at first sight, did the Kindle project seem ‘crazy’? Why did it turn out to be smart?

It seemed crazy because Bezos was investing in something that competed with his main product, physical books. But he wanted to get ahead of the game, control the market.

Bezos: ‘The thing for companies is you need to be nimble and robust, so you need to be able to take a punch and you also need to be quick and innovative and doing new things at a high speed. That’s the best defence against the future. If you’re leaning away from the future, the future’s going to win every time.’

13. How does Alexa fit into this approach?

Again, it’s looking to the future. Bezos: ‘What people have found over and over again is that by removing the tiniest amounts of friction from ordinary activities people appreciate that and it improves customers’ lives.’ It also improves sales figures – Alexa makes it very easy to buy from Amazon. Bezos is first and foremost a *salesman*: he wants to make it *easy* for you to part with your cash.

**Play Part 4 *Heavy Lifting Infrastructure*** *(stop at Part 5 Amazon Change Culture)* **then answer the following questions.**

1. What does Bezos mean by *heavy lifting infrastructure*? What are its characteristics? How did Bezos want to use it?

Parts of the business that are set up to deliver services – such as the Amazon distribution system. Bezos wanted to use it to make more business by allowing third parties to upload their products to the Amazon website – Amazon may or may not stock and send the product – either way it takes a cut on every sale.

2. How did this change Amazon.com? How did it affect income?

Amazon changed from a retailer to a *platform*, available to all-comers – at a price. Third party sales now account for nearly half of Amazon’s revenue.

3. What benefit does Bezos claim for his third party users?

It means they don’t have to ‘reinvent the wheel’ by creating their own infrastructure – which won’t add any value.

4. What does Bezos mean by OPW?

OPW = Other Peoples’ Work. Third party users upload their products themselves onto the Amazon website. Why do it yourself, when you can get others to do it for you?

5. How does Amazon Web Services fit into the ‘heavy lifting infrastructure’ idea?

Bezos: ‘Big companies build their own datacentres, but it doesn’t differentiate you from your competitors, it’s just a price of admission and so what we do at Amazon web services is we sell compute by the hour just like buying electricity off the grid just like buying electricity off the grid instead of having your own power generating plant.’

6. How is Alexa part of the heavy-lifting infrastructure concept?

Alexa is essentially another ‘platform’: its AI voice system may have all kinds of future, as-yet-unknown uses.

7. How can the heavy lifting infrastructure idea be summarised as an Amazon.com strategy? What other ideas are in the pipeline?

Long term investment in products that can be exploited again and again for new uses. Reusable space vehicles fit into this idea.

**Play Part 5 *Amazon Change Culture*** *(stop at Part 6 Too Challenging?)* **then answer the following questions.**

1. What does Amazon.com need to be able to achieve such astonishing success?

The right internal culture.

2. How is the Amazon culture identified in the film?

Restless, relentless, never satisfied.

3. How does Bezos define ‘true innovation’?

‘True innovation is something that’s not only an invention but an improvement. It’s not hard to make things different but it is hard to make things different and *better*. Most of the problems in the world already have solutions of one kind or another. All those solutions can be improved upon. There’s no chance anything is perfected yet, I don’t believe that.’

4. What ideas came before the Amazon.com concept of constant improvement and innovation?

Kaizen: ‘constant improvement’ concept that came from Japan.

5. How does Amazon.com ‘take that to another level’?

They will push through changes, forcing disruption on themselves.

Rossman: ‘One of the traits Amazon has is they’re not afraid to interrupt their own businesses and create internal competition to cannibalise their own businesses.

6. What moves in the early 2000s caused much disquiet inside Amazon.com? Why?

Opening the business up to third-party sellers. Wouldn’t these other traders simply steal their business?

7. How, allegedly, did Amazon.com executives remind themselves on the most ‘important person in the room’?

There was an empty chair at every meeting: *for the customer*.

8. What measure in 2003 was introduced to help build customer trust?

‘Look inside’ feature for books.

9. Name another ‘driving slogan’ for Amazon staff. How is manifested?

‘Invent and simplify’. How do we make it as easy as possible for the customer to buy? How can we simplify dispatch through automation?

10. In the ‘Amazon universe’ who is the ‘real enemy’? What does this mean?

Bureaucracy, not competitors, is the real enemy. They want to avoid formal structures.

 11. Name a device to force through change at Amazon.com.

‘Two pizza teams’, empowered to force through change.

12. What is the phrase that encapsulates this approach to forcing through change.

‘Culture beats structure.’

13. How is Amazon ‘wired a very different way’, according to John Rossman?

Don’t compromise, just to get along, have backbone and disagree and fight through to the right answer, but once the decision is made, move forward. They learn very quickly, make corrections.

**Play Part 6 *Too Challenging?*****through to the end of the film** **then answer the following questions.**

1. What ‘bad stories’ started coming out in 2013?

About dispatch workers conditions in UK: working on ‘zero hours contracts’ (no guaranteed set hours or job security). Also, a ‘three strikes and you’re out’ punishment regime.

2. What further bad publicity did Amazon.com receive?

2015: The New York Times ran a piece criticising the culture among white collar staff, accusing the organisation of ‘conducting a little-known experiment in how far it can push white-collar workers, re-drawing boundaries of what is acceptable.’ One ex-Amazon executive called it ‘purposeful Darwinism’ or ‘survival of the fittest’.

Employees were called ‘athletes’. One said his enduring image was seeing people ‘cry at their desk’.

3. How did Bezos respond?

He accused the paper of sensationalism. He said: ‘I don’t recognise this Amazon’. He hit back by saying he was intensely proud of the culture he had built up at Amazon.

Bezos: ‘I think of it as a gold standard culture for innovation and pioneering work. I work with these people who are missionaries for what they do. If you’re giving great customer experience, the only way to do that is with happy people. You can’t do it with a set of miserable people watching the clock all day. It’s about *meaning*. People want to know they’re doing something interesting and useful – and for us, because of the challenges that we have chosen for ourselves, we get to work in the future, and it’s super fun to work in the future.’

4. What does Bezos say about brands and reputations?

Bezos: ‘Brands for companies are like reputations for people and reputations are hard-earned and easily lost. We’ve worked very hard to earn trust, you can ask for trust you just have to do it hard way one step at a time. You make a promise then fulfil the promise.

5. What acquisitions did Bezos make in 2013 and 2017?

2013: He bought the Washington Post. 2017: The US supermarket chain Wholefoods.

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**Discussion or assignment topics**

1. Bezos says: ‘If you put your back into reinventing a 500 year old industry some folks are going to get ornery,’ followed by his famous laugh. The film also includes examples of other classic disruptions. Discuss the disadvantages (including social) as well as advantages of ‘disruptions’. Are they inevitable? Is there a way the social consequences (eg loss of jobs) might be mitigated?

2. Would you like to work for Amazon.com? Bezos defends the culture at Amazon but is it really something to be proud of? Take into account issues such as work/life balance and if the effort demanded of its employees justifies the ultimate goals of Amazon. Bezos claims it’s all for the customer – but who is the ultimate beneficiary?

3. Is Amazon.com good or bad for the world? Think about factors such as consumer satisfaction but also issues such as competition and wider issues such as the environment and world poverty. What are the dangers of Amazon.com becoming too big?

4. Other super-rich entrepreneurs (eg Bill Gates) have put spare money into charitable schemes, for example to alleviate developing world poverty and disease. Bezos (a self-confessed sci-fi geek) has invested in space travel. Compare Bezos with these other entrepreneurs. Is it right to judge him morally on his contribution to the good of society?

5. *Disruptive innovation* usually happens when a new business idea harnesses the power of a new technology, and often comes from outside established businesses. Can you think of any other examples?

Suggestions: Uber, YouTube

6. Bezos talks about ‘using his winnings’ from Amazon to fund his space travel project. Does this choice of phrase tell us anything to his attitude to Amazon.com and his co-workers?

7. When it comes to forcing through change at Amazon.com the driving motto is ‘Culture beats structure.’ Explain what is meant by this.

8. Bezos says he’s very proud of the culture at Amazon – saying ‘it’s super fun to work in the future’. He speaks of his employees as ‘missionaries for what they do’, as if everyone working at Amazon feels the same as he does. Is it reasonable of him to assume this?

9. Internally Amazon.com puts great emphasis on automating functions, of having less and less human interaction and more and more based on computers. What are the advantages and disadvantages of this approach?

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**Companion Notes**

*These notes follow the sections of the film and provide some additional commentary.*

**Introduction**

1994: Jeff Bezos was working as a computer science professional on Wall Street when he took interest in a new phenomenon, the internet. He saw the possibilities of selling on-line. He set up Amazon.com. He chose the name *Amazon* because of that river’s many tributaries, which seemed like a good metaphor for an on-line store.

Bezos: ‘Whatever it is that you want to do, there’s going to be risk in your life, and risk is the necessary component of progress’.

The risk paid off: by 2016 sales were $136 billion.

Bezos: ‘I realised you could make a bookstore on the web that could hold more books than a physical book store could ever hold, it could truly have universal selection…and we’ve expanded that into other categories we keep pursuing that notion of earth’s biggest selection at Amazon.’

In the process, Amazon.com has become a classic case of *disruptive innovation,* destroying established businesses and old ways of doing things.

Bezos himself recognises his approach has upset lots of traditional businesses.‘If you put your back into reinventing a 500 year old industry some folks are going to get ornery.’

And *inside* the business: Amazon.com has developed a culture of constant change. In an environment of low margins, customer obsession, this means pressure on staff.

Amazon.com is the classic case study in *disruption* and *change,* but what is the cost?

And Bezos, one of the world’s top three richest men, himself has attracted criticism for tax avoidance.

**Source Of The Amazon**

Bezos started Amazon.com in in Seattle 1994.

Bezos: ‘The wake up call that led to starting Amazon.com was finding that web usage in spring of 1994 was growing at 2,300% a year – and so the question was, what sort of business plan would make sense in the context of that growth?’

His start up cash was $300,000, mostly from his parents.

Bezos: ‘My dad’s first question was: what’s the internet?’

He warned them they might well lose their money – as it turned out, their investment paid off rather well.

Bezos: ‘I knew there was a good chance it wouldn’t work but I also knew when I was 80 years old and thinking back over my life, I would never regret having tried and failed but I *might* regret having never having tried.’

He made a long list of possible products to sell.

Bezos: ‘Came up with books for a bunch of reasons but primarily because books are very unusual in one respect and that is there are more of them than there are products of any other category… and computers are good at organising such large selections of products and you could build something on line that literally couldn’t be built any other way.’

The largest physical stores only carry up to 150,000 books, against the millions actually available.

It was a case of ‘right idea at the right time’.

Bezos: ‘We were *shocked* at the customer response. In the first 30 days we had orders from all 50 states and 45 different countries.’

Having a virtual store of unlimited size also meant he could cater to niche markets as well as mass markets. It also set the Amazon business model in stone: high volume, low margin selling.

These days, as we know, it’s more than books you can buy at Amazon. Easier to say what you *can’t* buy, including… life’s stranger merchandise. How about... Bacon Bandages? A Flip Up Ninja Shirt? Glow in the dark toilet roll?

And, for the person who *really* has everything... *nothing*.

Amazon, as well as an on-line retail store, has also become a platform for sellers to sell their own products… they can also use Amazon to ship them – known as ‘fulfilment’.

Amazon’s third party marketplace now earns nearly as much revenue as the original retail business.

And there’s Amazon Web Services: an on-demand computer cloud platform. Started in 2006, by 2017 it was generating over $12 billion in revenue.

Amazon has also launched its own products, such as the Kindle e-reader and Alexa, the ‘intelligent personal assistant’.

Bezos has also used his cash mountain to *acquire* businesses, such as the Washington Post in 2013. In 2017 he bought the US supermarket chain Whole Foods – much to the consternation of established supermarket chains. Will Bezos sweep *them* away? As if that’s not enough, he wants to sell space travel – in reusable rockets.

Amazon is stats-heaven…they sell over 480 million products, that number growing by 485 thousand *per day*.

In 2014 they sold 5 *billion* items.

They have 300 million customers, of whom at least 80% buy once a month. 44% of on-line shoppers search first on Amazon.

They have over 350,000 employees – and 45,000 robots.

In 2016 they claimed 50% of all e-commerce sales in the US, racing past Exxon Mobil to become the fourth-largest US company. Valuation:

$350 billion – more than the GDP of Hong Kong. Jeff Bezos himself has an estimated net worth of $70 billion.

Amazon is the classic case study in disruptive change. Its rise has left old businesses in ruins. Constant change, constant customer focus. It’s a business made in the image of its now legendary founder. It’s said employees, when faced with a problem, say: ‘What would Jeff do?’

**Customers Before Profits**

Amazon is at the cutting edge of technology – but it’s also based on old-fashioned values: a wide range at a keen price – and good service.

Bezos: ‘We did extensive analysis and found customers *actually like to receive their products*.’

His stated mission is to make Amazon ‘the earth’s most customer-centric company.’ The key, he says, is focus on *customers*, not competitors.

Bezos: ‘Customers are always dissatisfied, they always want more and so they pull you along… whereas if you’re competitor obsessed if you’re the leader, everybody running behind you, maybe you slow down a little. And customers are always pulling you.’

For Bezos, the formula is simple:

Bezos: ‘We know customers like low prices, we know customers like big selection and we know customers like fast delivery. Those things are going to be true 10 years from now, they’re going to be true 20 years from now, we can count on those things and put energy into them.’

Despite its vast turnover, Amazon has low profit margins. Firstly, because it’s a *retailer*: it survives on whatever *margin* it adds to the cost of a product. Its worldwide distribution network is also a major cost. Thirdly, Bezos wants to invest for the future – further affecting short term profits.

Bezos: ‘You can’t really do the right thing for customers if you’re short term oriented.’

It’s about building customer *trust* for the long term.

Bezos: ‘Our profitability is not our customer’s problem. We don’t take the point of view that we’re going price products at a particular margin for ourselves. We say we’re going to price products competitively and if that means on that product we lose money that’s ok because we need to take care of the customer, earn trust… if we find we can’t ever make any money on that product we’ll stop selling it but we’re not going to make customers pay for any our inefficiencies.’

Part of the customer-centred approach is a relentless drive to make ordering easy: from ‘one-click’ shopping on the website to simply asking Alexa to buy for you. The fact that it’s marginally easier than using a phone makes all the difference, he believes.

Bezos: ‘What people have found over and over again is that by removing the tiniest amounts of friction from ordinary activities people appreciate that and it improves customers’ lives.’

It also improves *sales figures*, of course. Bezos is first and foremost a salesman. He wants to make it easy for you to part with your cash. A study suggested that customers spent 10% more with Amazon after they bought the electronic personal assistant Alexa: especially as to have Alexa you need to be an Amazon Prime subscriber. Bezos denied any such ‘base motives’ behind the launch of the product.

*Extract from Billboard Magazine interview about Alexa:*

***Stephen Witt (Billboard):****This is about more than just music, isn’t it? If you succeed, you’ll have placed an Amazon cash register in every house in the country.*

 ***Jeff Bezos:****It’s not about that. For sure, if you have a two-year-old and you see that you’re running low on diapers, we want to make that easy for you. But voice interface is only going to take you so far on shopping. It’s good for reordering consumables, where you don’t have to make a lot of choices, but most online shopping is going to be facilitated by having a display. Alexa is primarily about identifying tasks in the household that would be improved by voice. Music is one. Another is home automation.*

**The Great Disrupter**

The term *disruptive innovation* came out of the writings of business guru Clayton M. Christensen in the 1990s.

The history of business has been marked with classic ‘disruptions’: cases where new products or business models revolutionised the market.

It’s often based on new technology but that in itself is not the key – it’s the *application* of that technology.

For example, the first automobiles did not disrupt the transport industry because they were expensive – they were the toys of the rich. But when Henry Ford *combined* the technology of the internal combustion engine with the systems of mass production – that was a revolution.

It brought cars within the reach of the masses. The world has never looked back, for good… and not so good.

So disruptive innovations happen not directly from new technologies but from *the new business models* they make possible.

Other examples of disruptive innovation include: in the late 70s, the personal computer, that brought computing power onto the desk top and, ultimately, into the hand.

In the 1990s: CDs put paid to vinyl – well, almost.

Digital cameras replaced film based cameras .

Digital typesetting swept aside the ancient craft of typesetting.

These innovations often come from *outside* established businesses: who may be too big and slow to react to new opportunities. They may be too busy focusing on their competitors in the old market to want to risk new ideas. But they do that *at their peril*.

*Kodak.* Established in 1892, Kodak became the giant of the film and camera industry – by 1976 it sold 90% of all film sold in the US and 85% of all cameras – top of the list the iconic Kodak instamatic.

But Kodak held back on developing digital cameras for fear of cannibalising their own business in photographic film. It was a fatal hesitation – by 2012 they were filing for bankruptcy.

*Nokia:* at its peak in 2007 Nokia controlled 41% of the global handset market. By 2014 that was down to just 15%. It sold its devices and services business to Microsoft. A giant had fallen – victim of the iPhone. It was a classic case of disruption – Apple had arrived from *outside* the traditional telecoms industry. Nokia had been too slow to see the possibilities of internet smartphones.

It’s not hard to see where Amazon fits the paradigm. A newcomer, using a new technology, blows away the old ways of selling – endless choice, low prices, delivery to your door.

It put a bomb under the up-till-then cosy world of publishing and book selling.

Not that Amazon.com has had a problem-free rise. The late 90s saw the bursting of the so-called ‘dot.com bubble’: many dot.com start-ups had expanded too quickly, without sustainable business models. Investors started pulling out. Amazon too looked vulnerable – it hadn’t even made a profit yet.

*Amazon.toast*, the critics called it – it was only a question of time before the big book retailers woke up to on-line selling.

Bezos: ‘Everybody has read the Amazon.toast article, I think we had 150 employees and Barnes & Noble had 30,000 employees. And somebody wrote an article that said, you know, Amazon has had a great two year run but now the big boys have shown up and they’re going to steam roller them… and so we had an all hands meeting, and I said don’t be worried because about our competitors, they’re never going send us any money anyway.. let’s be worried about our customers and stay heads-down focused.’

2007: Amazon launched a new electronic publishing medium: the Kindle.

Now it was competing against conventional book *publishers* as well as retailers.

As a *retailer*, it could undercut its bricks and mortar rivals *and* offer an infinitely larger selection.

As a *publisher*, it could use its retail strength to push its products against rival publishers.

It created a platform for writers to self-publish. It created a demand for traditionally published books to be offered much more cheaply than physical books.

The great disrupter was simply blowing away all the old boundaries between retailers, publishers, writers and customers.

Competitors cried foul: Amazon was using loss leaders to tie in customers, it was enticing customers with free delivery. There were not many *customer* complaints. Most galling of all, they would browse bookstores then buy cheaper online with Amazon.

Amazon has spent billions on its delivery system. In 2014 it spent more than $4 billion on shipping costs, 5% of total sales – but Bezos didn’t mind about that. It was all in the cause of relentless focus on the customer in an industry that had grown complacent. Well, that came back to bite them.

The steady decline in bricks and mortar retailing over the last 20 years is well-known – books are the prime example. In 2014, the number of independent bookshops in the UK fell below 1000 for the first time.

And the big boys did *not* turn Amazon into toast. Amazon had *them* for breakfast.

By 2015 Barnes and Noble, the biggest conventional US book retailer, was in deep trouble. It had tried to hit back with its own website – but Amazon was just too good at the game.

The other big rival, Borders, was already toast – going bust in 2011.

**Long term thinking**

Bezos thinks long term: he believes in *constant disruption*. That means investing in ideas that may not pay off for years. If that hasn’t made him popular with his Wall Street shareholders – he doesn’t care.

At first sight, the Kindle project seemed crazy – why invest so much in something that competed with his main product, physical books? The answer: get ahead of the game, control the market. In the process, he blew a big hole in the cosy world of traditional publishing. He opened up the market to self-publishers, he established immense control over sales and distribution.

Bezos: ‘The thing for companies is you need to be nimble and robust, so you need to be able to take a punch and you also need to be quick and innovative and doing new things at a high speed. That’s the best defence against the future. If you’re leaning away from the future, the future’s going to win every time.’

The same forward-thinking approach is behind Alexa, ‘your intelligent personal assistant’: she reacts to your voice, she can check your bank, order an Uber, play music. Amazon is reticent about sales data for Alexa – the consensus from Amazon-watchers is that it is selling well – not least, of course, because of the massive marketing weight Amazon can put behind it – although this does not *guarantee* success, as evidenced by the flop of the Amazon smart-phone, Firephone.

Aside from short term benefits, tying in customers more to Amazon shopping, there’s also a significant long-term goal in play – to explore the future of artificial intelligence (AI), to provide a platform for future, unknown applications using voice technology, especially in the area of home automation. Critics have pointed out privacy issues: how safe are your secrets with Alex? Bezos makes light of these, claiming data security as tight as with any other computer application.

**Heavy Lifting Infrastructure**

A key part of Amazon’s strategy has been to exploit what Bezos calls *heavy lifting infrastructure*. The Amazon retail business meant setting up a vast marketing and distribution network. Why not use it to make more business?

They did this by allowing third parties to upload their products to the Amazon website – Amazon may or may not stock and send the product – either way it takes a cut on every sale.

 In the process, Amazon changed from a retailer to a *platform*, available to all-comers – at a price.

The great benefit to Amazon is that the traders do all or most of the work themselves, uploading their products by following on-line instructions from Amazon. There’s typically very little interaction with Amazon. All Amazon has to do is take their commission. It’s a good example of another of Bezos’ famous dictums: *Other Peoples’ Work*. Why do it yourself if you can give others the tools to do it?

Third party sales now account for nearly half of Amazon’s revenue.

There have been plenty of gripes from the third-party sellers about terms and conditions: in practice there’s little they can do as Amazon controls the marketplace.

Bezos: ‘We have these warehouses all over the world where we do our picking packing and shipping. It took us, you know, over a decade to build that infrastructure and one of the ways we can leverage that infrastructure is by offering it to others for a fee and that’s what fulfilment by Amazon is. It’s an opportunity to use our infrastructure to provide better services to your customers and allow you to focus on your idea and it’s very important when you’re doing something new not to reinvent the wheel on stuff where you’re not actually creating any new value.’

Amazon Web Services (AWS) is based on the same idea of creating infrastructure. Customers buy data storage from Amazon on a pay per use basis.

Bezos: ‘The best analogy I can give you for this is, it’s like the electricity grid, right now big companies build their own datacentres, buy their own servers, it’s a lot of capital expenditure but it doesn’t differentiate you from your competitors, it’s just a price of admission and so what we do at Amazon web services is we sell compute by the hour just like buying electricity off the grid instead of having your own power generating plant.’

It’s taken off in a big way. AWS controls a third of the cloud-computing market. If it were a stand-alone company, it would be worth about $160 billion.

Alexa, Amazon’s personal assistant, has its roots in the same concept: all the big tech giants believe artificial intelligence is the future and Amazon is no exception. Alexa is essentially another ‘platform’: its AI voice system may have all kinds of future, as-yet-unknown uses. Amazon allows third-party hardware makers to integrate Alexa into its own products, from cars to refrigerators. It may have a use in health-care.

Dave Limp, Amazon senior vice president: ‘At Amazon we believe the next big platform is the voice…what we’re trying to do is to build a computer in the cloud that’s completely controlled by your voice.’

So a key part of Amazon’s strategy is long term investment in products that can be exploited again and again for new uses. And now he’s taken over earth? Conquer space, of course – by means of Amazon’s venture in re-usable space rockets, Blue Origin.

Bezos: ‘We need to be able to put big things into space at low cost. I’m using my Amazon winnings to do a new piece of heavy lifting infrastructure which is low cost access to space – vehicles have to be reusable, you can’t throw them away – throw-away space vehicles every time, you’re never going to lower the cost – I can’t predict for you what brilliant, amazing entrepreneurs will do in space but I know if I give them low cost access to space some brilliant 22 year old’s going to figure it out .’

**Amazon Change Culture**

‘It’s Always Day One’

Jeff Bezos

Amazon has been called ‘the world’s most disruptive company’. They’ve put a bomb under conventional retailing, publishing – not to mention cloud storage services. They’ve risen in little over 20 years since start up into a business doing over $150 billion in sales a year.

Amazon needs the *internal* culture to achieve that success. That means constant questioning, constant change. For founder Jeff Bezos, it’s always ‘Day One’.

*Jeff Bezos:* ‘True innovation is something that’s not only an invention but an improvement. It’s not hard to make things different but it is hard to make things different and *better*. Most of the problems in the world already have solutions of one kind or another. All those solutions can be improved upon. There’s no chance anything is perfected yet, I don’t believe that.’

The basic idea of constant change is nothing new – the Japanese ‘kaizen’ concept was based on this – continuous improvement – that helped to launch Japan as a major player in the auto and electronic industries in the 60s and 70s.

Amazon takes that to another level. They will push through changes, forcing disruption on themselves. John Rossman is an ex-Amazon employee.

*Rossman:* ‘One of the traits Amazon has is they’re not afraid to interrupt their own businesses and create internal competition to cannibalise their own businesses, they’ve done that repeatedly and I think.. that’s an interesting kind of company, that’s hard to do.’

The principal driver of these ‘internal revolutions’? Bezos himself – according ex-employees like Rossman.

*Rossman:* ‘It’s a culture of *questioning*. If they can’t find the answer, they ask themselves: ‘What would Jeff do?’

Rossman calls it ‘a data driven environment’: that means making decision based on real-time data. ‘It’s an environment where the best data always wins the conversation’. At the same time, there is allowance for changing course if an idea needs modifying in practice, based on the principle ‘launch and learn’.

*Examples of Amazon internal disruptions:*

By 2000 Bezos realised he had more than an online store – it was a *platform*, a whole digital shopping mall where third-party sellers could sell their own goods to Amazon’s millions of customers. But opening the business up to what were, essentially, competitors caused much disquiet *inside* Amazon. Wouldn’t these other traders simply steal their business? But Bezos was focused on the *customer*… They went ahead and by 2015 third-party sales accounted for about 40% of Amazon’s revenue.

Why are we here? The answer always: *for the* *customer*. There was an empty chair at every meeting: *for the customer*. Put the customer first, the profits will come – eventually.

*Bezos:* ‘If you want to be pioneering, if you want to inventive, if you want a culture that is experimental, then you want to be customer obsessed rather than competitor obsessed.’

For all the frantic, constant change – Amazon’s success is rooted in building long-term customer trust. Bezos will look for a five to seven year return-on-investment rather than 18 months.

A similarly controversial move was in 2003, when a new feature allowed customers to ‘look inside’ books before they bought. If they lost sales short term, it built customer trust in the long term. The same was true of their no quibbles return policy.

*Invent and simplify* is another driving slogan – how do we make it as easy as possible for the customer to buy? How can we simplify dispatch through automation?

Teams are incentivized to prioritize automation over using human resources. That means providing unlimited budget for software development, but limited budgets for service operators. It’s a constant drive to destroy old functions. The constant question: Why is this a manual function? How can it be automated?

**Bureaucracy The Enemy**

In the Amazon universe, *bureaucracy*, not competitors, is the enemy. They want to avoid formal structures.

The answer: so called *Two Pizza Teams*, small groups of innovators, no more than 10, who are given ‘ownership’ of a part of the customer service process. They are empowered to solve problems – they are driven to improve, to simplify functions, to force through change, using real time data to make decisions.

Essentially, as Rossman puts it: ‘Culture beats structure’.

Rossman says employees are encouraged to *challenge* their superiors – to ignore job titles. It’s an atmosphere where disagreement is encouraged, if it means a better decision.

*Rossman (ex-Amazon employee)*: ‘So many organisations are geared to the lowest common denominator: well, let’s get along, it’s important we reach consensus and everyone get alone – Amazon is wired a very different way. Don’t compromise, just to get along – the ability to have backbone and disagree and to fight through to get through to the right answer, *but* once a decision is made, move forward, they learn very quickly – data driven environment – they make corrections, but then, once a decision is made, commit wholly to it.

‘While being collegiate is valued, being *right* is valued higher.’

Behind this is the ‘ownership concept’: ‘I have responsibility to fix something regardless of organisational structure.’ That means quite a challenging work environment. As Rossman says: ‘You’ve got to love owning problems’. A good illustration of this attitude is the *Just Do It* award given to employees who have gone straight to the heart of solving problems.

Another device to force through change is the so-called: *future press release*. Teams are encouraged to think forward to the launch of a new service or product, assuming it’s already down the road and successful. They work back from there. They ask questions like: ‘How did we manage to serve customers without ever talking to them? Why are they loving it? What were the hard things we did early on that made that successful?’

***Too* Challenging?**

But is Amazon’s culture of constant change *too* challenging?

If you google *Relentless.com*, you divert straight to Amazon – that’s because it was registered by Bezos as one of his early ideas for a name. It fits well with his approach – but what about his staff?

In 2013 bad stories started coming out concerning staff at Amazon’s distribution centres. Channel 4 News in UK, among others, exposed harsh labour practices such as ‘zero hours contracts’ and ‘three strikes and out’ punishment regime.

*Amazon employee (Rugeley UK):* ‘You could turn in at seven o’clock in the morning and be sent home at eight, that’s after standing around. Or you get in and they say to you, don’t come in tomorrow, so there’s 10 hours I’ve lost.’

And in 2015 the New York Times ran a piece criticising the culture among white collar staff, accusing the organisation of ‘conducting a little-known experiment in how far it can push white-collar workers, re-drawing boundaries of what is acceptable.’ One ex-Amazon executive called it ‘purposeful Darwinism’ or ‘survival of the fittest’.

Employees were called ‘athletes’. One said his enduring image was seeing people ‘cry at their desk’.

Bezos accused the paper of sensationalism – he said: ‘I don’t recognise this Amazon’. He hit back by saying he was intensely proud of the culture he had built up at Amazon.

Bezos: ‘I think of it as a gold standard culture for innovation and pioneering work. I work with these people who are missionaries for what they do. If you’re giving great customer experience, the only way to do that is with happy people. You can’t do it with a set of miserable people watching the clock all day. It’s about *meaning*. People want to know they’re doing something interesting and useful – and for us, because of the challenges that we have chosen for ourselves, we get to work in the future, and it’s super fun to work in the future.’

Super fun for the multi-billionaire owner – but is Bezos on the same planet as his employees? Is it fair to expect them to have the same enthusiasm as them? When does customer obsession turn into employee exploitation?

Apart from criticism over working conditions, Amazon has also received bad press for locating its global headquarters in Luxembourg, thereby benefiting hugely from that country’s low rate of corporation tax.

But Bezos says he is aware of the importance of *reputation*.

Bezos: ‘Brands for companies are like reputations for people and reputations are hard-earned and easily lost. We’ve worked very hard to earn trust, you can ask for trust you just have to do it hard way one step at a time. You make a promise then fulfil the promise. Sometimes people talk about brands in this very amorphous way but for me I like to think of it as a person: what is the reputation of that person and how have they earned that reputation.’

Customers like good prices, good selection, fast delivery – they don’t much care about employment practices – unless they work there. If treatment of staff – not to mention tax avoidance – has taken some gloss off Amazon’s image, you wouldn’t know it from sales figures.

In 2013 Bezos bought the Washington Post for £250 million. This was 12 years after the then-thriving paper predicted Amazon’s demise. Bezos will not have been unaware of the neat irony.

Critics said it was so that he could *guarantee* good press. Bezos replied that he would not get involved in editorial decisions. That said, it’s hard to imagine The Post running an expose about Amazon in the way the New York Times did.

Bezos also invests in websites like Business Insider UK, which by an interesting coincidence happened be he high in the rankings for reviews of his products.

It’s perhaps significant that since the criticism began, Bezos does far fewer media interviews.

And questions remain.

In 2017 Amazon bought the US supermarket chain Wholefoods. Already the big supermarkets are quaking at the thought of Amazon doing to *them* what it did to the book trade.

Just how big can and *should* Amazon get? Competition is good – but what happens if Amazon destroys the competition?

Journalist Kara Swisher summarised the Bezos enigma.

‘One of the problems with Jeff is that he’s super complex. That’s also one of his virtues. Is he mellowing into a philanthropist? Turning into a media mogul? Will he pay Amazon’s taxes? Fix its warehouse labour practices? Does he want to leave a civic legacy, or does he simply want to build spaceships to fly rich people to Mars?

These are questions not even Alexa can answer – yet.’

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