

Amazon.com: Staying a step ahead (2020)

2020 was proving to be a stellar year for Amazon. Operating profits for the prior year were \$14.5 billion on revenues of \$280.5 billion. The number of employees surpassed 1 million in July and the company's market value surpassed \$1 trillion in September. Online shopping, streaming and listening had boomed during the Covid-19 pandemic, benefiting many of Amazon's businesses. Expectations of continued expansion were high.

There were a few clouds on the horizon. Amazon faced criticism on worker rights and pay, and for not paying a fair rate of tax in many parts of the world, especially Europe. Its powerful position in ecommerce had also opened it up to anti-competition complaints and in November the European Commission laid out a specific set of charges that would take several years to address.

More fundamentally, observers were questioning whether Amazon had become overly diversified. With a million employees, it seemed likely that the scale and complexity of the company's activities would lead to a gradual maturing of the business and a reduction in growth. On the other hand, there were no signs of this happening yet. Did Amazon have a 'special sauce', a distinctive way of working, that meant the normal laws of gravity did not apply to it?

The early years: Getting big fast

In the early 1990s, Jeff Bezos was working in New York developing mathematical models for a hedge fund. Struck by the commercial potential of the fast-emerging internet, he researched 20 different product categories before identifying books as the most attractive. He founded Amazon.com in 1994, writing the business case as his wife drove them to their new home in Seattle. Bezos had chosen Seattle as it gave him good access to software developers and it was close to Ingram Book Distributors, the US market leader.

Bezos raised \$1 million from friends and family and launched Amazon in July 1995 from a garage with five employees. The company subsequently received venture backing from Kleiner Perkins, the top Silicon Valley VC firm. Calling itself "Earth's Biggest Bookstore", Amazon offered a million titles (most book superstores offered 150,000 at most). 35% of the titles (approximately 60% of Amazon's orders) came from Ingram. The rest were sourced from distributors and publishers. This 'on-demand' strategy was designed to keep costs as low as possible. In the first 30 days the company had orders from every state in the US and 45 different countries. Growth was rapid, with sales doubling every quarter.

Bezos described Amazon's corporate strategy as "GBF: Get Big Fast"¹. The company went public in Q2 1997, raising \$42 million. Bezos owned 42% of the company. At the end of 1997, Amazon had revenues of \$147 million and losses of \$35 million.

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This case was first published in 2015 and updated in 2020

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