

Amazon: Success, Survival, or Suicide

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Introduction:

In Spring 1994 30-year-old Jeffrey Bezos was working for a New York City investment firm researching the Internet. The astounding 2,300% growth rate did more than catch Bezos's attention. It was, as he described, "my wake up call."¹ He began making a list of the top mail-order products, believing that these types of products could also sell successfully over the Internet.

There were a number of reasons why books came out at the top of that list. Two of them were personal: his love of books and his wife's longing to become a prominent novelist. The investment firm turned down Bezos's idea of selling books over the Internet. He quit and that summer the Bezos family relocated to Seattle.

A year later, in his 40 square meter garage, Bezos launched Amazon.com, what he intended to be the "earth's biggest bookstore."

Within the first few days, I knew this was going to be huge. It was obvious that we were onto something much bigger than we ever dared to hope.²

He was right. By June 2000 Amazon had become the world's number one Internet retailer with over 22 million customers and over 18 million unique products. Sales exceeded \$1.6 billion in 1999 and were expected to reach \$2.4 billion by the end of 2000.

However, despite the company's impressive sales record, Amazon had still not made a penny's profit. (*Refer to Exhibit 1 for Amazon financial details.*) In 1999 the company reported net losses of \$720 million. In January 2000 for the first time the company laid off 150 of its staff. In June 2000 a leading financial analyst³ argued that Amazon was running out of cash and proclaimed, "the party is over." The highly volatile Amazon stock tumbled 20% in a single day to a 52 week low. (*Refer to Exhibit 2 for Amazon's stock performance.*)

As the company celebrated its fifth anniversary, many wondered if Amazon would survive. Could Bezos finally make a profit? Or would the company simply go bankrupt like many other Internet adventures?

Earth's Biggest Bookstore: 1995 - 1997

The Book Industry in the mid-1990s

When Amazon was launched in 1995, the worldwide retail book market was valued at \$80 billion. The US accounted for approximately 25% of this market and was growing 4% annually.⁴ (Refer to *Exhibit 3* for details on the US and European retail book market value and volume.)

Book Suppliers

Retailers could source their books directly from a publisher or via a wholesaler. In 1996 it was estimated that over 2.2 billion books were sold in the US, of which 35% were distributed from publishers directly to general retailers and 25% via wholesalers.⁵ (Refer to *Exhibit 4* for information on the US book industry.)

The publishing industry was very concentrated, with as few as 20 of the estimated 50,000 publishers accounting for almost 90% of all North American sales.⁶ The largest publisher in the US was \$2.3 billion Simon & Schuster, owned by media giant Viacom. Retailers could obtain significant discounts by buying in bulk directly from the publisher. However, publishers did not always have the required books in stock.

Wholesalers tended to supply more quickly than publishers and have larger stocks of bestsellers. Retailers, however, had to pay the additional wholesale mark-up. Ingram was the largest book wholesaler and accounted for more than half of total wholesaler sales in the US. The company shipped over 130 million books to more than 33,000 retail outlets from over 6,800 publishers worldwide.⁷ Ingram's head office was in Seattle, and Bezos had, in fact, moved there to be close to his main supplier. Amazon worked with a number of wholesalers but sourced over 60% of its book supply from Ingram in 1997.⁸

The Traditional Retail Book Market

The US retail book market was undergoing significant change in the 1990s. Independent bookstores, which had accounted for almost a third of all book sales in 1991, had seen their market share drop to 18% by 1996. (Refer to *Exhibit 4*.) Instead, book lovers preferred the spacious "library-like" atmosphere of the book superstores. Not only did superstores offer more selection, they were designed as a place for relaxation and enjoyment. Customers could slowly browse the store, sit in an armchair while listening to a CD, pause for a coffee, or participate at one of the frequent book signing events.

Barnes & Noble (B&N), founded in 1873, was the world's largest book retailer and a pioneer of the book superstore concept. Depending on the location, the B&N superstore offered 60,000 to 175,000 titles in a store that ranged in size from 1,000 to 6,000 square meters. The company described the stores as follows⁹:

The Barnes & Noble stores are designed to be reminiscent of an old world library, with wood fixtures, antique style chairs and tables, ample public space, a cafe and public restrooms. Barnes & Noble's literary cafes, for which the Starbucks Coffee Company is the sole provider of coffee products, further the image of its 'super' stores as a community meeting place.

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