

Bezonomics: How Amazon Is Changing Our Lives, and What the World's Best Companies Are Learning from It

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Introduction

Highlight(yellow) - Page 3 · Location 56

When he sees an email from an unhappy customer, he forwards it to the appropriate executive with a simple “?” This sets off an alarm bell in the mind of the poor soul receiving the message, a Pavlovian response that makes that person drop everything and solve that problem for the customer—now.

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Every time these machines make a decision—ship ten thousand coolers to the Pasadena warehouse the week of the Rose Bowl or a thousand knit mittens to the Ann Arbor warehouse when winter is coming—it activates a subsequent check to see whether that decision turned out to be the correct move.

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It offers a vast selection of goods—Amazon will not confirm how many, but one source puts it at nearly 600 million.

Chapter 1: Bezonomics

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An astounding 44 percent said they'd rather give up sex than quit Amazon for a year, and 77 percent would choose Amazon over alcohol for a year.

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The company siphons off 2.1 percent of all household spending—or some \$ 1,320 for a U.S. family that earns \$ 63,000 a year.

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Even some shoppers who despise Amazon can't live without it. Nona Willis Aronowitz, in an op-ed for the New York Times, said that on principle she hated Amazon because of the reports she'd read about the way it treated its warehouse workers. Yet, after her eighty-five-year-old father, who'd been a labor activist at one point in his career, had suffered a debilitating stroke, Aronowitz came to depend on Amazon for making sure her house-ridden dad had everything he needed—from physical therapy balls to cheap tubs of protein powder. Aronowitz saw using Amazon as a “deal with the devil,” yet wrote of her father: “He can't shop on his own, and his caretaker can't spend her life going to specialty pharmacies and medical supply stores. So Amazon Prime has been his lifeline.”

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Amazon's private label sales hit \$ 7.5 billion in 2018, according to analysts at SunTrust Robinson Humphrey. By 2022, they are expected to hit \$ 25 billion.

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In 2019, Amazon spent approximately \$ 7 billion on original programming and music, making it a major force in Hollywood. That number still trails Netflix, which spent an estimated \$ 15 billion on original content that year (more than any Hollywood studio), but it means Amazon is playing to win.

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The Echo uses artificial intelligence to listen to human queries, scan millions of words in an Internet-connected database, and provide answers from the profound to the mundane.

Chapter 2: The Richest Man in the World

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One day during the trip, while sitting in the backseat of his grandparents' car, he calculated how much time Mattie had taken off her life. When he

was finished with his arithmetic, he proudly announced to her how many years she'd lost, but got a reaction he didn't expect. She burst into tears. His grandfather stopped the car and took Bezos out of the backseat. He had no idea what was about to happen because Pop Gise had never before said a cross word to him. Recalls Bezos: "I thought he might actually be angry with me, but he wasn't. He said these incredible words, 'You're going to find out one day that it's harder to be kind than clever.' That's very powerful wisdom."

Chapter 3: In God We Trust, All Others Must Bring Data

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At the company, some managers had signs outside their offices that said "In God we trust. All others must bring data," a philosophy that Bezos lives and breathes.

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With his S-team, the signal that Bezos seems to be sending to the world is that if something were to happen to him or if he retired (although no one believes that will happen anytime soon), Amazon has a deep bench of all-pro players who could step in and drive the company.

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Sitting in his modern Hoboken, New Jersey, office overlooking the Hudson River, Lore, dressed in a very un-Walmart-like black T-shirt and jeans, reflected on his years at Amazon. "Jeff said he didn't believe in social cohesion because you can get to the wrong answer that way," explains Lore. "There are some benefits to that approach. If you tell people exactly what you're thinking—even if you hurt their feelings—you get to the right answers." The downside, Lore believes, is that if you hurt coworkers' feelings, maybe they don't have as much trust in the leadership or they won't speak up the next time or they'll be risk averse or leave the company. "There are pros and cons to both approaches, but I personally love the Walmart culture of social cohesion where feelings matter. How you interact with people is very important and how you make them feel is very important. It's not always about just getting to the right answer."

Chapter 4: The 10,000-Year Man

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Bezos, however, trusted Graham so much that he bought the paper without doing any financial due diligence. Years later, Bezos said that “every single thing he told me on both sides of that ledger turned out to be true.”

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“In space,” says Bezos, “we have unlimited resources. We could have a trillion humans in the solar system and it still wouldn’t be crowded. If you had a trillion people, you could have a thousand Einsteins and a thousand Mozarts and da Vincis, and how cool is that. We have to go to space to save earth and we have to do it in a hurry.”

Chapter 5: Cranking the AI Flywheel

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The design of Amazon’s campus, while seemingly a haphazard collection of skyscrapers spread throughout the city center, is no accident. Bezos could’ve moved his headquarters to a single giant corporate campus in the suburbs, as other big tech companies like Microsoft, Google, and Apple have done, but he chose to stay in the buzz of downtown, an attractive place to work for its tens of thousands of young techies. As the company expanded, it would simply build or acquire new skyscrapers.

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One of Amazon’s great strengths is that it’s run like a federation of independent nations, each with its own leader and citizens. While conducting interviews at Amazon, I had to walk blocks each time I saw an executive. There’s no central corporate suite for the heads of all the business units. These executives are spread throughout the city, running their own operations.

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it: “Anyone who has worked at Amazon for more than a couple weeks has heard the term ‘flywheel.’ In fact, I suspect that many, if not most, people who interview here discuss the flywheel as part of their onsite interviews. So, getting your head around Amazon’s concept of the

‘virtuous cycle’ prior to interviews here is a good idea.”

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So, the first spot on his flywheel sketch was lowering costs for customers. By lowering costs Amazon increases the number of customers who visit Amazon.com. That attracts more third-party sellers who want to reach the growing traffic on Amazon’s platform—the second spot on the flywheel—which leads to more revenue for Amazon. That leads to economies of scale that help lower prices for customers—the third spot on the flywheel. This pulls in more customers, and Bezos was right back where he started on his sketch of the flywheel. The circle was complete. He realized that if he could get his employees to focus their attention on any of these components—traffic, sellers, selection, or customer experience—that would distribute more energy to all of the spots on the flywheel. The whole system grows. Bezos understood these linkages beautifully.

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By 2018, Amazon was spending \$ 28.8 billion a year on R& D, more than any other company in the world. That number, however, is somewhat deceiving because it includes not just R& D but what the company’s annual report describes as costs for “maintaining its existing products and services, its server farms, stores, website displays”—costs most businesses would report as operating expenses, not R& D. What this means is that Bezos doesn’t think about R& D as being separate from the business. R& D is the business. This accounting treatment was so odd that the SEC asked Amazon to break out its R& D costs according to accepted accounting standards. Bloomberg’s Justin Fox unearthed a December 2017 letter in which Amazon’s vice president and worldwide controller Shelley Reynolds argued that the company, because of its relentless focus on innovation and customer obsession, doesn’t manage its business by separating activities “typically considered research and development from its other activities.” In other words, Amazon innovates better than most other companies because its flywheel generates continuous improvement up and down the organization. Everyone is expected to innovate—not just a handful of scientists in white lab coats.

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Today an estimated 35 percent of Amazon's online revenues come from its product recommendations.

Chapter 6: Earn Your Trident Every Day

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The Amazon executives who sat for interviews for this book said that, at its heart, Prime is a way to change consumer shopping patterns, to turn the occasional online shopper into a person locked into the Amazon ecosystem who interacts with the company on a frequent basis. The

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As Bezos once summed it up, "Every time we win a Golden Globe award, we sell more shoes."

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In 2018, Reuters obtained confidential Amazon financial documents showing how the company thinks about its Prime Video division. The documents revealed that Prime Video attracted 5 million new Prime members from late 2014 to early 2017, about one-quarter of the total number of people who joined the membership program during that period. The papers also revealed that the viewing audience for Prime Video was about 26 million customers, which is far less than Netflix's 130 million viewers, but an impressive number for a streaming service that simply started as a benefit for Prime members.

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Amazon believes that Prime Video is a formidable and profitable way to attract new Prime members. Here's how it works. The company assumes that if the first thing a Prime member does after signing up is watch a movie or TV show, then Prime Video was the reason the person joined Prime. The example in the documents that best illustrates this point is *The Man in the High Castle*, a fantasy drama set in a universe in which Nazi Germany and Imperial Japan have won World War II and split America into two competing and hostile colonies. The show attracted 8 million U.S. viewers as of early 2017. The crucial metric, however, was that the show worldwide attracted 1.15 million new Prime subscribers whose first interaction with the membership program was to watch *The Man in the High Castle*. Amazon spent \$ 72 million to produce and market the series, which works out to a recruitment cost of \$ 63 per

subscriber. At the time, Prime subscribers were paying \$ 99 a year for a Prime membership, which more than covered that cost. Perhaps most important, Prime members spend on average \$ 1,300 a year at Amazon—almost twice as much a year as nonmembers. When viewed from that perspective, investing in The Man in the High Castle became a no-brainer.

Chapter 7: Sexy Alexa

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Gene Munster of the investment firm Loup Ventures estimates that Amazon and the other tech giants are spending a combined 10 percent of their annual research-and-development budgets on voice recognition.

Chapter 9: Dancing with the Devil

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As of 2018, about a third of all sellers on Amazon were Chinese, as were four of the top ten sellers. In 2017 alone, more than 250,000 new Chinese businesses started selling on the site.

Chapter 10: The Game of Drones

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Make no mistake: while Bezos accepts high shipping fees as unavoidable to keep the Amazon AI flywheel running, shipping is costing the company a fortune. In 2018, Amazon spent \$ 27 billion on shipping—a 23 percent increase from the previous year. The cost of a single delivery can range on the high end from \$ 7 to \$ 10. The last mile is where the costs pile up. It can account for more than half of the total cost of shipping a package.

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This is where technology—Amazon's main strength—comes in. The robot technology that Amazon is developing can be used for food orders, eliminating some labor costs. Challenges exist, however, especially in picking out orders. If a customer likes perfectly ripe strawberries, how can a robot distinguish them from those that aren't yet ripe? In Amazon's secretive research labs, a machine-learning team came up with a way to

identify whether some strawberries are fresher than others. The solution uses visual recognition technology that allows the machine to learn which strawberries are perfect for eating. It recognizes the reddest, ripest strawberries in the same way face recognition software can pick a particular person out of a crowd.

Chapter 13: Amazon Unbound

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We think of ads as something that, if it can enhance the customer or the seller experience in a way, why not try it?"

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A 2019 report by Juniper Research predicts that Amazon's advertising revenues will reach \$ 40 billion by 2023. And because Amazon's retail business already pays for the huge server farms it needs to operate, a huge chunk of the company's ad revenue falls right to the bottom line, making it a highly profitable business. Morgan Stanley estimated in 2019 that Amazon's advertising business was worth \$ 125 billion, more than the stock market value of Nike or IBM, making it a potential third pillar at the company along with e-commerce and cloud computing.