The dotcom king
By Alan Deutschman
Seattle
Sydney Morning Herald
August 17, 2004

In 1997, when the book barons at Barnes & Noble launched their rival website, Forrester Research chief George Colony famously predicted that Amazon.com was "Amazon.toast".

A lot of journalists and investors - and those inside Amazon - thought him correct.

But Amazon's founder, the zany and irrepressible Jeff Bezos, flourished.

When the collective delusion of the 1990s ended, Amazon's shares fell from $US100 to $US6. Bezos remained sanguine.

"Jeff irrepressibly casts every challenge as an opportunity," says his long-time friend, Linda Stone, a former executive at Apple and Microsoft.

Now Bezos is vindicated again.

Last year the company posted its first full-year profit.

It's on track for nearly $US7 billion in sales and $US400 million in earnings. The stock has revived to $US50 a share, giving the company a market value of $US21 billion. Amazon is one of the handful of web pioneers - along with eBay, Yahoo! and Google - that have endured as pillars of the internet. And Bezos is the only founder in that bunch who's still running his company as the CEO. He's the only one to make the notoriously hard transition from visionary of a small start-up to boss of thousands.

It couldn't have happened without "planetary alignment", says the man worth $US5 billion. But Bezos' success also springs from his ideas about running companies and creating innovation. His thinking is far-sighted and intuitive.

You have to look beyond the popular image of Bezos the goofy geek, the wacky PR stuntman who recently played tennis with Anna Kournikova for charity - and to publicise the debut of Kournikova's new sports bra on Amazon. And you have to get past his reputation within the industry as the ultimate "quant jock", the quantifying by-the-numbers boss who measures everything with spreadsheets, and bases decisions on data, not instinct.

It's easy to believe that he had a 4.2 grade point average in his electrical engineering and computer science major at Princeton, meaning that he got a bunch of A-pluses, which count as 4.3 (and are given rarely). Bezos did emerge occasionally from the computer centre to take his meals at the Quadrangle "eating club", where one of his future marketing executives, David Risher, was the president.

What distinguishes Bezos from other highly analytical businessmen is his harrowing leaps of faith. He makes nervy gambles on ideas that are just too big and too audacious and too long-term to test on a small-scale. He introduced innovations that measurably hurt Amazon's sales and profits, at least in the short run, but he's always driven by the belief that what's good for the customer will turn out to be in the company's best interest.

Bezos sees himself as a "change junkie", and the culture he has created is adept at coming up with innovations, but he's also unabashed about copying ideas from competitors. And while Amazon has benefited from Bezos' forceful convictions, he's remarkably good at listening to critics and following their advice when they convince him he's wrong.

He's the rare leader who obsesses over finding small improvements in efficiency at Amazon's huge warehouses right now, while sustaining an entrepreneur's grand vision of changing the world over decades. Depending on the situation, he can be hyperrational or full of faith, left- or right-brained, short or long term. That's why he endured even after other 1990s dotcom founders handed over power.
"The thing about inventing is you have to be both stubborn and flexible, more or less simultaneously," he says. "Of course, the hard part is figuring out when to be which!" Then comes his earthquake of a laugh.

Amazon's headquarters look much more prosperous and mature than they did in the late 1990s. Back then, the company was on Seattle's skid row. Its old brick building shared a dismal block with a needle exchange and a defunct pawnshop.

Now as you drive into Seattle, you look up at its current HQ, a sprawling, ornate, 1920s Art Deco structure that stands alone atop a leafy ridge. But all the desks are still modelled after the one Bezos built for himself in the early days (and still uses): a cheap wooden door as the top, connected by metal brackets to sawn-off pieces of timber as the legs.

He believes in "conserving money for things that matter", he explains. "If you look at this building, you can open the windows and get fresh air and natural light. Those things actually matter to people. Having a mahogany credenza does not." Amazon still hangs whiteboards in the elevators, as it did back in the skid-row days, when the barely postcollegiate employees were so overcaffeinated and hyperactive that they amused themselves by scribbling away between floors.

Bezos, the famed boy wonder, turned 40 this year, and he has two sons, ages 2 and 4, with his wife MacKenzie. He dresses in a uniform of blue jeans and a pale-blue button-down shirt. The laugh is larger now than in the early days, as though he amplified it, consciously or not, in response to the press he got for it.

If Bezos' personality is non-corporate, so are some of his ideas about how to run a large organisation. One of his more memorable behind-the-scenes moments came during an off-site retreat, says Risher. "People were saying that groups needed to communicate more. Jeff got up and said, 'No, communication is terrible!' His managers were shocked but Bezos pursued his idea of a decentralised company where small groups create their visions independently.

He came up with the notion of the "two-pizza team": if you can't feed a team with two pizzas, it's too large. That limits a taskforce to five to seven people, depending on their appetites.

These pizza teams have created some of the site's quirkiest and most popular features. They conceived of the Gold Box, a little animated icon of a treasure chest that gleams and wobbles at the top of Amazon's home page. A click to "open" the box reveals special offers that last for just an hour.

Another popular innovation is the daily bargains on staple goods found on Bottom of the Page Deals. Bezos wanted Amazon customers to think of the site not just for books, CDs and DVDs but also daily essentials. But what has distinguished Amazon have been the big gambles, such as Search Inside the Book. This feature lets customers search through the full texts of books and read several pages at a time for free, as a way to get them to buy. Search Inside debuted with 120,000 books. Each one had to be scanned and indexed, a huge logistical challenge at a huge cost. The database took up 20 terabytes, which Bezos says is about 20 times larger than the biggest database that existed anywhere when Amazon was founded.

But a large-scale launch was the only way to see whether it would go over with Amazon's 43 million active customers.

"For every leader in the company, not just for me, there are decisions that can be made by analysis." He's setting up for the punch line: "These are the best kinds of decisions!" The booming laugh comes on cue. "They're fact-based decisions. The great thing about fact-based decisions is that they overrule the hierarchy. The most junior person in the company can win an argument with the most senior person with a fact-based decision. Unfortunately, there's this whole other set of decisions that you can't ultimately boil down to a math problem."

For those judgements, Bezos relies on his most senior executives, whom he regularly recruits from larger companies.

Sometimes, Bezos says, you can't rely on facts because it would be too hard to test an idea, or too costly, or you can't figure out how to do it. And "sometimes we measure things and see that in the short term they actually hurt sales, and we do it anyway," he says, because Amazon managers don't think the short term is a good predictor of the long term.
For example, they found that their biggest customers had such large collections of stuff - especially CDs - that they accidentally ordered items they had already bought from Amazon years ago. So they decided to give people a warning whenever this was about to happen. Sure enough, the warnings slightly reduced Amazon's sales. But it is hard to study the feature's long-term effects. Over a 10-year period they thought it would make customers happy and probably increase sales.

"You have to use your judgement," Bezos says. "In cases like that, we say, 'Let's be simple minded. We know this is a feature that's good for customers. Let's do it.'"

Amazon faced similar dilemmas with its dramatic moves to cut prices and offer free shipping on orders of $25 or more, which is very costly for the company. "You can do the math 15 different ways, and every time the math tells you that you shouldn't lower prices 'cause you're gonna make less money," Bezos says. "That's undoubtedly true in the current quarter, in the current year. But it's probably not true over a 10-year period, when the benefit is going to increase the frequency with which your customers shop with you, the fraction of their purchases they do with you as opposed to other places. Their overall satisfaction is going to go up."

From Amazon's early days, his vision was "to create the world's most customer-centric company, the place where you can find and buy anything you want online".

Bezos seems as comfortable stealing ideas as he does inventing them. EBay is the rage? Amazon begins holding auctions. Google is getting the headlines and web searching is the hot business? Bezos starts A9, a subsidiary that created its own search engine. "We watch our competitors, learn from them, see the things that they were doing for customers and copy those things as much as we can," he has said.

Amazon hasn't enjoyed the kind of success with its imitations as it has had from its original ideas. When Amazon's auctions proved disappointing, its executives realised that eBay was just too strong, says Risher. But Bezos is persistent, tenacious, and adaptive. Auctions opened up Amazon to the idea of letting third parties sell things on the site. Bezos tried again with zShops, an online mall with third parties selling things at fixed prices from their own "storefronts". That disappointed too, but Amazon learned from the experience and created Marketplace, which has had far greater success letting third parties sell their goods side by side with Amazon's own offerings on Amazon's product-detail pages.

It's hard to predict how Amazon will change in the next few years because Bezos is so committed to radical innovation. "We have this weirdness in our business," he says. "The raw ingredients that make our business - things like CPU processing power, bandwidth, and disk space - get twice as cheap every 12 to 18 months. Disk space is 30 times cheaper today than it was five years ago. Thirty times cheaper! So the real question becomes, 'What can you do with 30 times as much disk space, 20 times as much computing power and 30 times as much bandwidth? All right, how are you going to make customers happy with that?' It turns out that these are not easy questions to answer."

Bezos' long-term vision of the customer-centric company isn't always an easy sell to sharemarket investors. On April 22, Amazon released its results for the first quarter. The company met its sales and earnings projections, with a $US111 million net profit - exhilarating for a hugely expensive and ambitious venture that lost so much money for so long. But analysts fretted about how Bezos' ongoing campaign of discounts keeps slicing away at profit margins. So the next morning, the stock price sank.

Bezos has struggled with skeptics before, especially during the dotcom crash, when plenty of people openly wondered whether he was a fraud. Bezos responded with astonishing self-confidence and optimism. At PC Forum, a conference attended by leading figures in the tech business, he gave a presentation in 2001 that Silicon Valley insiders are still marvelling over. First, he showed a slide focusing on Amazon's stock as it fell from its $US100-a-share peak (adjusted for splits) to its $US6 nadir.

"If you look at things this way," he said, "you're a pessimist." Then he displayed a slide charting Amazon's cumulative wealth creation as a sharp upward line between two points: the day the stock went public ($US1.50, split-adjusted) and that day ($US11.64).

"I prefer to look at it this way," Bezos told the tough crowd, "and that's why I'm an optimist."

The Book of Bezos

Hire carefully for enduring culture
"I'd rather interview 50 people and not hire anyone than hire the wrong person," Jeff Bezos told a colleague in Amazon's early days. " Cultures aren't so much planned as they evolve from that early set of people."

**Be stubborn and flexible**

"If you're not stubborn, you'll give up on experiments too soon," Bezos says. "And if you're not flexible, you'll pound your head against the wall and you won't see a different solution to a problem you're trying to solve."

**Obsess about what matters**

"You can be customer-focused or competitor-focused." But he warns that "some people are internally focused, and if they reach critical mass, they can tip the whole company."

**Know when to ditch the hierarchy**

"The great thing about fact-based decisions is that they overrule the hierarchy," Bezos says. "The most junior person in the company can win an argument with the most senior person with regard to a fact-based decision." But for intuitive decisions rely on experienced executives who've honed their instincts.

**Get good advice - and ignore it**

Amazon started with the seemingly ridiculous aim to offer a million book titles, including many that were very hard to find. "Every well-intentioned, high-judgement person we asked told us not to do it," Bezos says. "We got some good advice, we ignored it, and it was a mistake. But that mistake turned out to be one of the best things that happened to the company," because thrilled early customers gave Amazon terrific word of mouth.

**Don't chase the quick buck**

"Sometimes we measure things and see that in the short term they actually hurt sales," says Bezos. "But we do it anyway, because we believe that the short-term metrics probably aren't indicative of the long term."

**The Amazon rules**

**Stop talking**

When his people said they needed to communicate more within the company, he shocked them by shooting back: "No, communication is terrible." To promote his decentralised vision of the company, he created "two-pizza teams" - highly autonomous taskforces with five to seven people (no more than can be fed with two pizzas) who create and test features.

**Take leaps of faith**

Bezos takes risks on ideas - such as letting web surfers search the full texts of hundreds of thousands of books - that are so bold and innovative that the only way to know whether they'll work is to try them on a grand scale.

**Be simple-minded**

Bezos loves making decisions based on hard data, but when that's not possible, he believes in the power of being "simple-minded", relying on common sense about what would be in the best interests of his customers.

**Add up lots of little advantages**

He realises Amazon doesn't have a single big advantage over competitors, so he's constantly introducing small but innovative features that add up to a superlative experience for customers.

"This story was found at: [http://smh.com.au/articles/2004/08/16/1092508351784.html](http://smh.com.au/articles/2004/08/16/1092508351784.html)"