



Is Amazon the Next Wal-Mart?

You can buy snowplows, mascara, a pair of wing tips and, oh, yeah, books. But investors worry Jeff Bezos is taking on too much competition. **By Dyan Machan**

THE CORNER OFFICE

Jeff Bezos

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LIKE A BLUR OF electronic type, Jeff Bezos bounds into a stark conference room that has audiovisual cords messily snaking over the floor. Though courteous and quick to laugh, Bezos acts as if a clock is ticking inside his head—his answers are succinct and practiced. And as bold as he is in putting shareholders' money into new ventures, he is visibly cautious in describing the latest bets he's taking.

In the past decade, Bezos's once simple idea, to sell books online, has exploded into an enterprise that sells everything—snowplows, canned goods, you name it. More recently, it has ventured into selling its own back-office software to other e-commerce businesses, not to mention music and movie downloads, taking on veteran giants Apple and Netflix. And now, of course, comes one of Bezos's gutsier innovations: the Kindle, an electronic reader that some analysts have called the next iPod. Launched in 2007, the 10.3-ounce Kindle uses a cell phone-like network to download books and magazines—a technological advantage over Sony's Reader, which requires a computer connection for downloads.

With so many revenue streams, it's little wonder the Seattle-based company has been able to post robust results through the third quarter of the year, despite an obvious chill on consumer spending. But critics say this is no time for a company to be straying too far from its original mission and that with its new ventures, Amazon now finds itself going head-to-head with bare-knuckle competitors like Wal-Mart, Costco and eBay. Amazon's profit margins have shrunk a bit as the

Photograph by John Keatley/Redux for SmartMoney

firm spends more money on areas that are, at least initially, less profitable. Judging by its stock, which has fallen 45 percent this year, Wall Street has some reservations. Lazard Capital analyst Colin Sebastian, for instance, expects this holiday season to be worse than usual thanks to higher competition for fewer consumer dollars. “The company is not immune,” he says. (For more on Amazon and other online retailers, see “10 Things Your Online Retailer Won’t Tell You,” page 80.)

Still, don’t expect much change from the 44-year-old Bezos, who is adamant that Amazon’s ever-growing business tributaries are important bets. With characteristic calmness, he shrugs off criticism that Amazon is moving too far from its bookish core. “It’s always been our decision to let the customer choose what they want,” he says, adding with a grin, “you get thick skin after a while.”

■ **Your handlers said I could only talk to you about Kindle but that you wouldn’t give specifics on its sales. That sounds paranoid.**
We don’t disclose numbers as policy, but you can ask me anything.

■ **Amazon has about 6 percent of all U.S. sales online. That’s huge. Why muck it up with all the other businesses you’ve added, like manufacturing [the Kindle] and your new customer-service software?**
We are responding to customer needs.

■ **No one asked for the Kindle.**
True. It’s not the customers’ job to invent for themselves. Four years ago we thought about extensions to our business. We took a look at what we’re good at. On Kindle, we had been selling e-books for years, but you needed an electron microscope to see the sales.

■ **Citigroup analyst Mark Mahaney doubled his Kindle sales prediction and compares it to the iPod. What is the potential—in numbers, not words like significant and meaningful?**
I don’t know. Our approach is not to set a goal. Our approach has been to create the best physical model and let customers choose.

■ **And now you’re selling your own computing platform—like Web storage**

and payment services—to small businesses.

We launched our Web services two years ago; it’s the equivalent of creating an electric grid, but for computing. Recently, I went to Luxembourg and visited a 300-year-old brewery. It had this gigantic relic of a generator from when it had to make its own electricity. As soon as they could buy off-grid, they did. Making their own electricity didn’t make their beer taste better. It’s the same for running your own data center.

■ **How important could this become to Amazon?**
Assuming we execute well? Significant and meaningful.

■ **Very funny. Here’s something significant and meaningful: When oil**

passed \$100 a barrel, your stock hit \$95. Do I see a connection?

Not directly. But our value becomes even stronger when gas prices are high. It’s 5 miles to the store and back—our business allows customers to be more efficient. So yes, our customers are saying, “What a good bargain.”

■ **Today’s technology is such that we will soon have a cheaper, better version of Kindle. When will that happen, and what features can we expect?**

We will have new versions and new prices, but no date is set. We will continue to put content on. We want to make every book ever written available.

■ **What new features might we expect from the Kindle? Color? Animation? When I tried to read the newspaper on my Kindle, I couldn’t easily jump to the business section.**

Color or animation isn’t likely. E Ink [the type of technology Kindle employs] display doesn’t support color in a commercial way. Plus, the rapid screen updates required for animation create eyestrain. The Kindle is more like a printed page—easier on your eyes. We will do on-air updates. Perhaps we’ll create better user interface to improve what you’re talking about for a newspaper.

EXTRAS, EXTRAS, READ ALL ABOUT IT

EST. 2009 SALES: \$24.5 billion
EST. 2009 NET INCOME: \$1.14 billion
EST. 2009 EPS: \$1.92
2009 P/E: 26
MARKET VALUE: \$22 billion
COMMENTS: As Amazon expands, Wall Street wonders if the bookseller is going too far beyond its mission. The stock is up more than 30-fold since Bezos took the company public in 1997 but has fallen 45 percent this year.



AMAZON'S KINDLE



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■ You are creating some original content to sell over the Kindle. There's a speech by author Mitch Albom, for example. Publishers—your suppliers—won't like that.

We are working with publishers to make their books available on Kindle. We are not buying copyrights from them. We're also making self-publishing easier and supporting a lot of small publishers.

■ Perhaps the larger issue is that adults are reading less than they did 10 years ago, according to the National Endowment for the Arts. Isn't this a concern?

We humans evolve with our tools—they change us. But our network-connected tools have not kept pace with everything we need. The tools we've been building the past couple of decades make information snacking more convenient—I like my BlackBerry; it's good for e-mail and chunks of text. But you don't want to read a 300-page novel from a laptop. It's not comfortable. The Kindle was built for long-form reading.

■ So as the Internet shortens our attention span, you think the Kindle will lengthen it?

Yes, I think people will read more, not less.

■ How are you doing in digital video, another new Amazon service?

We are testing streaming on demand for Amazon Unbox, which was renamed Amazon Video on Demand. It's an early phase for all industry. We want to have universal selection on demand. Right now we have about 40,000 movies and TV shows.

■ Music downloads are available through your Amazon mp3 store. Is there room for more price competition with Apple, the market leader?

We are already heavily competing. Apple sells a song at 99 cents, versus our 89 cents. Plus ours are DRM [digital rights management]-free, so that they can be shared. We are also deeply discounting albums through our "Daily Deals."

■ You stay deeply involved in all these businesses. Without going into the succession rap about your indisputably talented staff, it seems you risk spreading yourself too thin.

I've been doing this for years. I promise I won't. 

SMARTMONEY.COM

Read more about Amazon, research its stock, and find online shopping tips at www.smartmoney.com.

Payday

Which CEOs are earning their pay and which, well, aren't? We weigh in on pay packages that stand out—for better or worse.



OVERPAID

JOHN THAIN
MERRILL LYNCH
PAY: \$23.1 MILLION



\$750,000 salary, \$15 million signing bonus, plus 380,000 shares of stock worth \$7.6 million at today's value.

While his counterparts floundered, Thain negotiated one of the fastest (and lucrative) marriages when he convinced Bank of America to buy Merrill Lynch. To many, he saved the firm from oblivion—and deserved every penny he made. But he failed at the mission he was given when hired last December: saving Merrill from further losses. Merrill declined to comment.

UNDERPAID

MARC BENIOFF
SALESFORCE.COM
PAY: \$10



Does not receive stock grants, deferred compensation, stock options or bonus.

Talk about aligning yourself with your investors. Salesforce.com, which had \$749 million in sales in 2008, saw shares fall 22 percent for the year on anticipated softness in technology spending. That means Benioff's 12 percent stake in the company he founded took a \$500 million hit. The firm is getting a good deal—as is society. Benioff, 44, gives all employees six paid days a year to work for good causes.

—Dyan Machan