

History of Amazon

Amazon A–Z: Books

What’s the idea of making a big fortune in the Internet industry starting with books? Jeff Bezos has repeatedly explained his choice. In an early article from 1996, a journalist from “Fortune” magazine describes it as follows:

“[Bezos] drew up a list of 20 products that he figured could be sold online – including books, music, magazines, and PC hardware and software. After narrowing the list to books and music, Bezos settled on books for two reasons. First, there are more to sell (about 1.3 million books in print, vs. 300,000 music titles). Second, the goliaths of publishing seemed less imposing. While six major record companies dominate music, Bezos says, ‘there are no 800-pound gorillas in book publishing or distribution.’ The biggest chain – Barnes & Noble – accounts for under 12% of the industry’s \$25 billion in annual sales.”

In a 1997 video, Amazon’s CEO also explained that since there are so many books, it’s impossible to build a physical store that can accommodate them all. Hence, paradoxically, old-fashioned books are the perfect product to be sold online. As Shel Kaphan, Amazon’s first employee adds, quoted by George Packer in “The New Yorker”, the books were also easy to ship and difficult to damage. Packer also cites an anecdote saying that in 1995 Amazon’s CEO was explained his business model in this way:

“Bezos said that Amazon intended to sell books as a way of gathering data on affluent, educated shoppers. The books would be priced close to cost, in order to increase sales volume. After collecting data on millions of customers, Amazon could figure out how to sell everything else dirt cheap on the Internet. (Amazon says that its original business plan ‘contemplated only books.’)”

Although today’s controversy around the company is mainly about its enormous market power and the treatment of its employees, it is worth going back to its early years. Much can be understood by looking at the way Amazon’s relations with book publishers have changed. Initially for the publishers, the new promising distribution channel was an opportunity and alternative to the disliked, huge book chain stores. This enthusiasm is reflected in the email quoted by Packer, which

Mary Morouse, one of the sales managers at the time, sent after meetings with publishers in New York:

“We are certainly popular with them,” she wrote. “They rave about Amazon.com – both as a store/service and a great way to market books. There were several examples cited where Amazon.com ‘made’ titles. And they love our sales numbers.”

However, this fascination ended when Amazon began to introduce marketing fees and push for ever-increasing discounts in the form of collaboration agreements. Particular pressure was exerted on smaller publishers, which, according to the alleged words of Bezos, were to be treated “like a cheetah hunting for a wounded gazelle”. Melville House, for example, turned out to be a gazelle – after it refused to pay the increased fees, the “buy” button disappeared with its books sold on the Amazon.

After the premiere of the first Kindle reader, there was also a rebellion by the biggest publishers, terrified by the low price of the newly released ebooks, set arbitrarily and without consultation by Amazon. Thanks to the introduction of the iPad and the agreement with Apple, the publishers forced Amazon to change the distribution model of ebooks and increase their prices and thus their margins. Paradoxically, this was the reason why the US market regulator imposed a penalty for monopolistic practices – not on Amazon, but on Apple and publishing houses.

sources:

1. Michael H. Martin, *The Next Big Thing: A Bookstore?*, “Fortune”, 1996 <https://fortune.com/1996/12/09/amazon-bookstore-next-big-thing/>
2. Isobel Asher Hamilton, *An unearthed video from 1997 shows a young Jeff Bezos explaining why he built Amazon’s empire on books*, “Business Insider”, 2019, <https://www.businessinsider.com/1997-jeff-bezos-amazon-empire-viral-video-books-2019-11?IR=T>
3. Brian Roemmele, *The “lost” Jeff Bezos 1997 interview just about a year after starting Amazon*, https://youtu.be/Pgzi_jUBu9U
4. George Packer, *Cheap Words*, “The New Yorker”, 2014, <https://www.newyorker.com/magazine/2014/02/17/cheap-words>
5. Brad Stone, *The Everything Store*, Random House, 2013