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## History of Amazon

### **Amazon A–Z: Prime**

**Prime is Amazon’s flagship product, being both a direct source of revenue and a powerful psychological tool. It keeps customers within the company’s services and makes them spend more and more willingly. Even if it does not finance its own operating costs, the program generates huge profits elsewhere.**

In 2020 the model of paying for online services in the form of subscriptions is something obvious. Netflix, Spotify, all kinds of magazines and journals – we pay for all this in advance for a given period of time, buying first of all a potential opportunity to use a certain service, rather than the service itself. No matter how many series and films we watch, how many songs we listen to or articles we read, the price is always the same. One could say that we even want to watch, listen to and read more, because otherwise we feel like we have wasted our money.

When Amazon introduced Prime in 2005, it wasn’t that obvious. What exactly is the service? The mechanism was extremely simple: in return for a fixed annual fee, users were entitled to free two-day delivery, regardless of the number of orders. The amount of this fee – initially \$79 a year, today \$119 – was set to reconcile two paradoxically conflicting goals. On the one hand, it must not have scared customers away, on the other hand, it must have been high enough to motivate them to buy more frequently on Amazon to justify such an expense. It was not so much a question of the customer buying more at all, but above all of moving their purchases to Amazon, since they already pay this company anyway. Even if there are so many orders that the shipping costs exceed the subscription fee, the company makes up for some of them in the commissions charged to the vendors on the platform or in its own margins, when Amazon is the vendor.

“Well, I think what feels icky about it is that at no point did you price-check that product right? That’s the part that makes us a little bit less responsible as Prime members. I mean that’s kind of what Amazon is banking on, that you’re so locked in that you’re not gonna go to any other sites, cause I mean, I don’t,” says Andrea Leigh, who has spent ten years in executive positions at Amazon, interviewed by Jason del Rey for his podcast *Land of the Giants: The Rise of Amazon*. This “masterstroke of behavioral

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economics,” as Franklin Foer calls it in “The Atlantic,” actually works: Prime US subscribers spend an average of \$1400 a year on the Amazon, while other customers “only” spend \$600. How much the program attracts users is also said by other statistics: 93% of subscribers maintain a subscription after the first year, and 98% after the next.

According to Jason del Rey from “Recode” and his interlocutors, Prime was a kind of experiment, one of the golden shots Jeff Bezos came up with and did not arouse immediate unanimous enthusiasm. Some senior managers believed that the project could plunge the company with its costs. Already years before, free shipping had been introduced under the name Super Saver Shipping for orders above a certain amount and only if the customer decided to have a long delivery time. However, Prime reversed this safe logic. It wasn’t supposed to be an offer for the thrifty, but for a circle of “special” customers. Today, the circle consists of 150 million people in a dozen or so countries around the world, who have access not only to free shipping but also to streaming music, films and tv series. If Prime was a country, it would be ninth in terms of population size.

What is not visible from the computer screen, however, is the logistical side of the venture. Del Rey asked about it Jeff Wilke, the man who reorganized Amazon warehouse system a few years before Prime was introduced. It was Wilke who, to a large extent, was the architect of the solutions that today are commonly criticized by employees and unionists. In the early 2000s, changes were made under his leadership that reduced the time from placing an order to sending it from twenty-four to three hours. To a large extent, these changes consisted of introducing new technical solutions. However, innovations such as constant tracking of each item in the warehouse also led to ever-increasing pressure on workers’ productivity and surveillance. After all, it is their physical effort that drives the two-day, and now one-day, delivery of purchases from Amazon. The strikes and protests of 2019, carried out on the Prime Day sale, were partly due to the announcement of another shortening of the delivery time, i.e. increasing the pace of work.

This darker side of Prime also has a name: Amazon Fulfillment Engine (AFE). It’s a part of a warehouse that is not usually shown on tours or promotional videos. Designed to increase the speed of shipping, this system puts together sorting, stacking

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and packing stations in parallel, directly behind each other. The continuous, fast flow of items and packages means that up to several hundred goods per hour must be stacked or packed. The temptation of fast delivery and instant gratification for the customers becomes a curse for the workers.

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