



Stanford eCorner

Customer Focus Builds Global Growth [Entire Talk]

Diego Piacentini, *Amazon*

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Diego Piacentini, Senior VP of International Retail for Amazon, discusses the company's growth-centered business model, its global presence, and the strides it takes to sustain a successful customer experience. Piacentini also describes Amazon's innovative approaches to operations, mergers and acquisitions, and labor practices.



Transcript

It is my sincere pleasure to introduce to you to our fabulous guest today. We have Diego Piacentini, who is the senior VP of International for Amazon. He is a member of Amazon's executive team and has been there for the last 10 years. He is responsible for all of the retail operations in five countries outside the US, including the UK, Germany, France, Japan and China. And prior to joining Amazon, Diego was a vice-president and general manager of Apple Computer Europe, where he led operations in the Middle East, Africa and Europe. But I got to meet Diego about a year ago, actually in Patagonia. We were both there working as volunteers for an organization called Endeavor. And Endeavor is a really cool organization, maybe I'll tell you a little bit about it later, where they identify high-potential entrepreneurs in the developing world. And we were there on the international selection committee. I got to know him, was incredibly impressed and now this is the second time he has come back to Stanford to help in our classrooms.

In fact, I understand that he is a closet professor. And so, hopefully, he'll get a chance to show us all of his skills. And I want to tell all of those people who are listening online and anyone who is in a class as well, you can follow us on Twitter at ecorner. Without further adieu, Diego. The reality is that I'm a failed attempt to be a professor. And in fact, I'm going to start, good afternoon to everybody, by the way, with a little bit of the four pieces of my career. Number 1, as you can guess from the first two, I'm Italian. I was born in Milan, Italy. I'm a big Inter fan, just in case you're wondering. And that's my alma mater, that's my university.

I'm a graduate in economics. I actually worked at the university for one year after I graduated on some research on econometrics. And I was able to get a scholarship to go to Wharton. But then Fiat came, hired me and I gave up the opportunity of going to Wharton. And it turned out the best for me. It brought me to work for Apple and for Amazon, which is one of the most important things about someone's career, which is at some point you have to be lucky to meet the right companies. And I was very lucky to meet what are today among the two greatest companies. So, what am I going to talk to you about today? Tina asked me to talk about one thing, and I'm going to translate it into basically two things, which is, how do we run a global organization at Amazon? Basically, almost half of Amazon's \$38 billion of revenue comes from outside the US. You heard Tina that we have five countries. So, you might wonder, "Wow, only five countries generate almost half of the revenue of Amazon.com." But obviously, it happens that those are the countries that matter in the world.

It's Germany, Japan, UK, France and China. The other piece is, how do we manage to keep innovating and obviously make sure that all the countries innovate, too? And how do we run a global organization and at the same time keep innovating, keep inventing things. Now, I'm going to create a little context. This is Amazon's gateway page in 1995. The company, by the way, is 15 years old. And it started by selling only books. The most watchful people in the audience might know this one thing that Amazon.com did not have when it was launched. There is no search box. You could not search books. You had to browse.

And it was a million books. Now, the search thing was added a few days later. But it was funny that when they decided to launch, they were behind with the search technology. But they decided to launch anyway because there's not much search around in Internet, anyway. So, the second piece of the point. Today Amazon has seven global sites; dotcom, UK, Germany, France, Japan and Canada. As I said, almost half of the revenue comes from the countries outside the North America. There is one thing in common among all those websites. Although you might think that Europe and Asia and the US, they all have different cultures, different ways to purchase products, what we've been able to build in all those 15 years is a very common technology, customer experience and shopping experience across the sites. You see, they have pretty much the same look and feel.

There is the same underlying technology. It's really all the same. I'm going to talk about this, how you can achieve this in a company that has now today 40,000 people, especially how you can keep, as I said and I emphasize, innovating in those countries. Other piece. Amazon is a global company. And the first thing you want to understand, by the way, the boxes are where the fulfillment centers are, the phones are the customer service and the A's is where the corporate offices are. What you're noticing is, although we are in the countries that I mentioned, we have lots of operations in other countries. For example, we have a customer service operation in Costa Rica. We have a development center in South Africa. We have several thousand employees in India, where we have customer service, software development, back office, retail activity.

None of them is outsourced. Those are Amazon employees living in those countries. So, we have several operations in countries where we actually do not have maybe a website. There's also customer service in Ireland. It's a little hidden by all of the things there. Global strategy. So, this is the first piece. Although the company started by selling only books online, Jeff Bezos' idea and vision were always the same from day 1, which is building a place where people can find and discover anything they want to buy online at the lowest possible price. That was already part of the vision. An important thing for a global company, for a company that innovates, is to make sure that you stick to the vision.

And obviously, you have many ways to change and be flexible because the strategy changes, the execution obviously changes. But keeping the same vision in mind, it has been very important that the same vision is exactly the same across all countries. To the right you'll read, "We strive to be the Earth's most customer-centered company. Start with the customer and work backwards." Clearly, you will never hear a company saying, "Oh no, we don't want to be customer-centered." All companies are customer-centered. What you're going to learn today is what are the things that a company builds to make sure that customer-centric means something, working from the customer backward means something. And I give you two examples. Number 1 is the technology that you operate with. Every single piece of code in Amazon has been written in-house. We have not bought any software from outside, well, also because we were the only commerce software when Amazon was born. We don't rely on external outsources.

We think that's the main asset. Example of customer centricity, when we launched the Kindle, one of the first things that we did was, since it's so easy on the Kindle to order a book, we thought, "Well, the customers might place an order by mistake." So, what happens when you place an order? A small button says again, "Did you mean to place the order or was it a mistake?" So, we give the customer the needed possibility to cancel the order if it was a mistake. Usually, most retailers try not to take products back, try not to incent the customer to cancel an order. But this is an example of what customer-centric means. When we do and work with new programs and new ideas, we say, "Start with the customers and work backwards." Every time that we think of a new program, we think, "What is the customer thinking? What is the customer looking at?" This is why as a company for example we try to avoid marketing hypes. If you go on Amazon.com, usually you don't see things like, "Everything 99% off." Usually, what the companies do is raise prices and then say there is a promotion. All the marketing messages are commercial messages that you see around. We try really as a company's philosophy to avoid it. We tell customers what the members are, what the discount is, and try to be as truthful as possible. So, those are examples of being customer-centric.

Core values. As a global company, one of the things that you need to make sure is that all the core values are the same. The core values evolving to leadership principles, I want to talk about those. Customer obsession. I gave an example or two before so I don't have to repeat that. Frugality. I am going to give you another example, which is something that happened in China. We are in China since 2004. I was there in 2005, one of my frequent trips and reviews. Harry Potter, I don't know whether 5, 6, or 7, was being published in Chinese and shipped by our operations.

And the day after it was shipped, it was right there. And the country manager was coming there and was very, very proud. Our competitor dropped the price. We dropped the price right now. Remember the vision of lowest possible price. And I said, "Great. What's next?" He goes, "What do you mean, 'what's next?'" "Well, how many Harry Potters did you ship yesterday at a higher price?" He goes, "Five thousand." "OK, now we need to go back to those customers and give those 5 RNB, which is less than a dollar, back." The guy was completely out of his mind, "What do you mean? They already paid. They have the product. Why give them their money back?" Again, this is something that probably no retailer had ever done in China before. But you think the Chinese customers didn't like it? So, this is an example where "culturally" you wouldn't do it because Chinese customers are not used to doing it.

But as a global company with the same principle of customer obsession, it turned out not only a good thing for the customer, it was also the best marketing activity we've ever done for that year. Frugality. Same thing, the company had not a lot of money at the very beginning. So, there was the concept of frugality, meaning that if you go to a hotel, go to Motel 6 than go to the Hilton. This is just an example. It was just not about hotels but I'm just giving the least example to understand. And we need to make sure all seven countries we're in, the same approach happens. Ownership. Every single employee in the company has vested interest. We used to have stock options, now RSUs, at every single level of the company, whether you work at the reception or you're the CEO of the company.

Bias for action, which means if you see something wrong, fix it. Don't wait for some higher hierarchy person to tell you how to fix it. And I'll give you examples later. High hiring bar. Again, like for customer obsession, you never heard a company say, "Oh, we have a very low hiring bar. We hire crap." No, everybody says they have a hiring bar. But again, I'm going to talk about mechanisms. What is the mechanism that we used to make that happen?" One example is what we call a "bar raiser". A bar raiser is a person that usually doesn't belong to the department that is hiring the candidate that has veto power to not hire a person if he thinks he's not the right person for the company. So, let's say I'm hiring a software developer for the payment team.

There is going to be a bar raiser who does not belong to the payment team who makes sure that the payment team is doing the right thing because what usually happens especially in companies that grow fast is that you're always desperate to hire people. You're always desperate to finish a project. And sometimes you compromise on the quality of the candidates. If you had the bar raiser from an external group that does not have a vested interest, he will exercise the right thing for the company. So, that's an example. Innovation. You'll see this visible across this presentation. What is this? This is our business model. This is actually the back of a napkin that my boss Jeff Bezos drew on in 2003, when we were trying to build a document that would express the business model. In the middle you see "Growth" because in our business growth is what really matters.

So, we start from the top selection. In every single country we have the principle of having the largest possible selection. We carry way many more products than any physical store can carry because of our model. We do this across all the countries even though, for example when we acquired the Chinese company, their model was to have few highly desired products but not the tail of the selection. Selections obviously drives an improvement of the customer experience because the more products you carry, especially if you have them stocked and you ship them faster at the lowest possible price, the more you improve the customer experience that drives traffic to the website, that drives for example external sellers that are working on marketplace platform that will add even more selections. And this circle just generates growth. Growth will generate for us a lower cost structure. And what do we do with a lower cost structure? Since we look at the long term, we keep lowering prices. And the lowering of prices goes back to improving customer experience. This is the philosophy that every single new hire of the company in every country, from China to Japan to Germany, learns.

The myth of best practices. You've heard many, many times the word of best practices. Many companies, global companies, talk about best practices. The issue with best practices is that oftentimes they're just good intentions. So, basically you see what the country does very well. And you say, "Look, this country does this program very well." As the best practice, you need to try to do the same. In our business model, and I emphasize from "our" business model because there might be other business models where the best practices work, we basically say in a very draconian way, "Everything is equal unless proven with data," and I emphasize "unless proven with data". It needs to be different. The good thing about when I joined the company when the company was so young, there was no legacy. There is very little legacy with every country doing their own thing.

So, they were able to build this "Everything is equal unless proven the need to be different". It turns out to be that all customers around the world, be they Chinese or African or European, they like low prices. They like the fact that we ship products fast. And we like the fact that we have a lot of products. The basic part, as trivial as it seems, is going to be the same. But there are differences. There are differences in the way that people pay, in the way that people ship or companies ship products. And this is an example of something proven with data. In China, the delivery system is different than in Europe and in the US. This is not a photoshopped thing.

This is real. So, in China for example, we have something that is completely different than in the rest of the world, which is we own the big piece of the last mile delivery. Here in the States, when you see an Amazon box, it's probably a UPS truck or a FedEx truck or a USPS truck or whatever local carrier. So, we lay our foundation on existing logistic infrastructure. Same thing in Europe. Same thing in Japan, Japan's incredibly developed infrastructure. In China we had to build our own delivery system. So, these are Amazon employees that carry Amazon products. They deliver the products and guess what they get in exchange? Cash. Now, they have the POS device for which a customer can slide their Bankard or credit card.

And that's the evolution. I actually tried it myself. Believe me, it's really, really hard, especially when you have to carry a TV screen. This is the way it looks, for example, our new schedule delivery, check-out page. So, if you look at the check-out page, that's where the difference is. Here is where you usually decide what kind of transportation you want. If you want a free, super

delivery or you want to pay for it next day, this is the way it looks like in China. So, this is an example of something that looks different but based on the fact that we had data to prove that it needed to be different. Another example, Amazon Prime. This is going to be my first and only commercial break.

Do you guys know about the Amazon Student Prime offer? Great. If you're a student, you have a dot-edu address, you can get Amazon Prime free for one year. What does Amazon Prime mean? It's about free two-day shipping. So, you buy anything you want, you get free two-day shipping. The idea really works in the US because the US and China has one thing in common of the two countries; they're big. And to cross products, especially if you have a product in the warehouse in Florida and the customers live in Seattle, it takes a lot of time. So, the idea was, "Let's make buying and shipping fast and immediate." This is also an example where innovation meant we made this decision even though every single NPV analysis, free discounted cash flow analysis, any financial analysis would tell us we are completely crazy to give two-day shipping for free. And it turned out to be that it was highly innovative. The customers liked it. And if you remember the cycle, the cycle worked.

And we could lower the cost of transportation so that now it costs us so much less for us who would carry those products to the last mile delivery. And it works. So, the idea was, the Japanese guys say, "But we shouldn't do it in Japan because in Japan we're so efficient it takes any way only one day." It turned out to be that we did Amazon Prime. We did it in all the four countries but with a different level of service and cost. Today in Japan for something like \$20 per year, you get same-day delivery in Tokyo. So, you order within noon, you get it within 8 PM. So, that thinking helped us to force innovation and invent something that didn't exist before. So, we had to change the cycle times within our fulfillment centers, rewrite the software for picking products. And innovation again was forced by a top-down decision to do the same things across the world. It goes into innovation.

Those are the three principles that we often discuss in Amazon. First of all, what is this? This is clearly you are inside a car. It's raining outside and your wipers don't work. So, that's how you learn helplessness. What happened is, in 1903 there was this lady called Mary Anderson who basically noticed that people when it was raining, I don't know why, by the way, they picked a car without a windshield, but if you had a car with a windshield, what happened is that there was no windshield wiper. They were not invented yet. So, every time the driver would stop, get out of the car and wipe the windshield. And then she thought, "Wow, this is weird." But everybody was doing the same. Everybody was stopping. There was no traffic but it was not really a big inconvenience to stop.

And she had an idea of a mechanical arm which she patented with a blade. The mechanical arm was basically maneuvered from inside the car to clean the windshield. That's an example of innovation driven by the fact that she didn't want to learn the helplessness of having to stop every time the car for such a big inconvenience as wiping the car. This is an example. Not only was the invention laughed at at the very beginning, this was even before the Ford A model was invented, but it became by 1913, ten years later basically all the cars had mounted on board her mechanical device. I said before, good intentions don't work. As a student, probably just me, you guys are so much better, every time that I had a test, I found myself had to study until 4 o'clock in the morning because I was always late. I'm sure it's different these days. And I always said the same thing, "Next time I'll do better." Guess what? The good intentions never worked. I always was up until 4 o'clock in the morning to study for the last test.

So, if good intentions don't work, what works? Mechanisms. And I'll give you this example. This is a table at Amazon we do as top managers to the lowest level. Every three years, three or four days in customer service, just listen to phone calls and reply to emails of angry customers. And I'm telling you it's really, really hard. And we also work in the fulfillment center for like three or four days to learn about things that happen on the floor. Until 2002, by the way, that was not a training; that was mandatory because we couldn't model the labor workforce and we often found ourselves with growth much higher than our forecasts. At some point everybody in December had to drop the pen and went to work in the distribution center because we did not have enough labor. The necessity became training. So, in this training, this was specifically an example of Jeff Bezos, he picks up the phone call of this customer saying, "You know, the table is scratched.

I have to return it." And the customer service rep sitting next to Jeff, who was basically his mentor, said, "Oh, yeah, I know the story. I'm sure that we're going to ship it in the same conditions. We're going to ship in a different table that has the same problem." So, basically, what happens there? Obviously, our intention was to ship the right table. But when we found out the packaging was wrong but there was no closed loop between the customer... the customer was complaining at the customer service. But the customer service had no way to communicate to either the buyer of that table or the distribution center that that table had. A repetitive problem, which was the packaging was basically scratching the surface of the table. So, again, we obviously have the good intentions to ship products that are not broken. And as I said, if good intentions don't work, what does work? In this case, mechanisms would work. And what is the mechanism that we thought of? By the way, this is a case where we did not invent the mechanism.

We basically copied, got inspired by what another company did before. I don't know if you recognize this. This is a car plant. And the guy is raising his hand. You don't see it but there's a cord. This is a Toyota plant here in the US. And this is the

famous concept of Andon cord. So, in the Toyota plants, they invented that several years ago, the idea was if a worker in the floor finds a defect that repeats itself at least twice, he not only has the power but has the obligation to pull the cord. What does the cord do? It stops the entire floor. Nobody works until that specific defect is being fixed.

Now, this is another example where any financial analysis, if you had a control, would say, "You got to be crazy." I mean, the cost of stopping the plant most of the time is way higher. By the way, this is not for a big defect, it's for any defect. This is why, by the way, for many, many years Japanese cars were way much better than the quality of the US cars. It's not just for that reason but that's an example. So, what we did was basically the same concept. If a customer service rep, an hourly rep that makes \$15 an hour in some remote customer service center, either he's in the Midwest or in Costa Rica or in India, sees that the same product, the same table that we saw before, he basically pulls our cord, which is basically pushes a button, and the product disappears from our website. And an email goes to the buyer of that product, goes to the fulfillment center. That's basically the mechanism until the defect is eliminated, in that case, the packaging, is fixed. The product is no longer for sale on Amazon.com. The innovation here is that you do not want to have bureaucracy in your way.

I mean, there are companies where if a customer service rep paid \$15 an hour does that gets fired right away. In our company, he gets rewarded. And this is across the world. It's not the Germany gets not to do it or France gets not to do it or China gets not to do it. They all do the same. Complete processes, as I'm sure that many of you has learned or will learn, is not just about building the tools, which is the mechanism, in this case the Andon cord, but then the hard part, which is making sure that across all your countries gets adapted so each has mechanisms in place to measure that and gets inspected because the tool itself could be wrong. So, building the tools, updating the tools and inspecting the tools. Another piece of innovation. Persistent pays. WD-40, I don't know how many of you recognize this product.

When it was initially thought was from some anti-rust product for rocket missiles. It turned out to be that, I'm going to go fast here, the word "WD" is "water displacement", 40 is the temp. It means that luck and persistence made and created this product that turned out to be completely different than what originally the inventor wanted to do. But it turned out to be an incredibly successful product. That's why persistent pays. I'll give you an example of persistence and repetition and why learning from mistakes is important. In 1999 we saw eBay doing auctions. So, we had a great idea, we should do auctions, too. But it was a very non-successful program, not thought through. The illusion of auctions, that was the first attempt, became zShop.

This could be prehistory for many of you guys. zShop was basically an ideal fixed price, not an auction price. But it didn't work because we had no way to drive traffic to that until the "Aha!" came in 2000, which is great. The same products that were hidden in the zShop corner of the store were actually going to be added to the detail page of Amazon, which is the highly most trafficked part of the site. So, the customers that wanted to buy Harry Potter, they could go there. And they could also see they could buy from other sellers a lower priced Harry Potter. So, this was our third attempt. But in the fourth attempt, we became what used to be called marketplace, so the fact of hosting many, many, many sellers within the company. This was not only perseverance but was also the fact that it was not liked within the company. I mean, all the buyers, all the retail people were saying, "We must be crazy.

We are hosting competitors on our website." And the idea was, that's exactly what we wanted to do. The visions, remember? Earth's largest selection. The change in strategy was we cannot build the largest selection ourselves alone. We need to have sellers. And this is the way it was created. Maximize experimentation. Making mistakes is incredibly important for an innovative company. We do crazy experiments at Amazon. We do lots of Web labs, AB testing. Sometimes you see a treatment of a product, a program you'll see different versions.

Until statistically significant change happens, we can't implement the change. We make lots of mistakes there. The important thing is that you create an environment where making mistakes within a company is OK; it's encouraged. We do have an award in Amazon called the "Just Do It" award, which is a big, used Nike shoe that we give to people that actually did something innovative outside of their tasks. So, two requirements; it needs to be outside of your normal tasks and it has to work. It has to be something smart. So, we do incentive mistakes. As long as you don't repeat the same mistake, it's fine. Stay heads down. This is very, very important, which is focus on the long term.

The company in the early 2000, late 1990s, had a lot of critics. People that did not understand the business model. This is an example, the BusinessWeek. This is when I think Barnes and Noble launched the barnesandnoble.com website. Walmart launched the walmart.com. Basically, the comment of the article is, "You're children, Amazon. You played enough with their toy. Now, the big boys, Walmart and Barnes and Noble, are coming online. And they're going to toast you." That was Amazon.toast. I wasn't in the company; I was in 1998.

Jeff Bezos had his big, old hands because people were really worried about all of it. There was another one, Amazon.bomb. The cover says the idea of Jeff Bezos of creating e-commerce was a silly idea. The employees were worried about it, "What's going to happen to us?" And he said, "We need not to be afraid of what external people think. We're ready to be misunderstood if we believed in what we do. The only type of people we need to be afraid of is our customers if we make

mistakes for them." By the way, things changed quickly in the same bearings. Now, totally things are different and following the way of all the lovers of Amazon. They used to be all the haters, usually media. It's human nature to copy and perpetuate itself. Last, and again, a great example of how to make sure that the focus on the long term which generates innovation is very, very clear.

This is Jeff Bezos' first shareholder letter. It's all about the long term. Because of our emphasis on the long term, we may make decision and weigh tradeoffs differently than other companies. The shareholder letter today gets attached to every single year shareholder letter to just show the vision being the same, that we have changed the strategy and the execution but that's always what we wanted to make. And I think this is the last slide. This is the second piece of the commercial. We always want to recruit great people. You guys are great people. So, if you're thinking about working at Amazon, this is the way to do it. And I think we're ready to take questions.

You want to say something? Great. Thank you very much. That was absolutely terrific. So, you guys know the drill. It's up to you to ask some probing questions. Who has got the first question in the audience? Yes, George? What's the general strategy that Amazon uses by looking into entering a new market and new country or a new culture? Is it like initially you buy a company there like the Joyo of China or do you try to set up shop first yourself? How does that process work? So, the question is, for those who haven't heard, what is the process or the methodology being used by Amazon to enter a new market for example, new geographies or new product-lines? Do we buy companies? Do we create companies? There's no one answer because we've done all of them. The answer is yes, yes, yes. So, for example, China as you mentioned was an acquisition. But France and Japan, we created it from scratch. UK and Germany were small acquisitions at that time.

So, it's a mix and it all depends on opportunities. For example, we had two opportunistic situations in UK and Germany. We just picked them up, sometimes you're lucky, or by what you want to do. And the great example that I give is Japan. Japan for those who don't know is the land of joint ventures. Everybody is a joint venture in Japan. They all do things together. And everybody was telling us that if you want to go to Japan, you absolutely want to have a joint venture. But we did not want to have a joint venture because we thought we had a clear vision in mind. We did not share that vision with others.

We had assets in mind. And we were very stubborn in building our Japanese operations with our strategy without using joint ventures. And everybody we were trying to do business with wanted to have joint venture. The logistic company that had to carry our products to the customers wanted to do a joint venture. And we said, "No. We just want to buy your services." So, it really depends on the situation. Next question. Kindle was kind of a surprise from Amazon, being a retailer and actually managing a manufacturing line. So, what other areas is Amazon looking that's not secret? Well, I'm not going to tell you the secret ones. I can tell you the ones that we have that are not secret.

So, the question is, Kindle is something that is completely different from our business model. We started manufacturing hardware, which is unheard of for a retailer. What else are you guys doing different? Well, the cloud computing. The AWS is a great example. AWS stands for Amazon Web Services. They are being used by company developers to basically replace their servers or their data centers. How was this generated? Now, everybody does Web services like Microsoft has. IBM have it. But when we started in 2006, it started from a necessity or from a situation, which is our business as a retailer is a very seasonal business, especially in the Western world. So, we have 40% of our revenue in two months of the year, three months a year, Q4, which basically means you have a lot of assets that are underutilized during the other 9 to 10 months, true for servers.

So, the idea is, if we build services and APIs for which other companies can attach to, we can actually rent out our unused space. Many companies said, "That's a great idea but it's not our competence. We don't really know how to do it." We thought it was a great opportunity. And that's the ability of Jeff and the executive team, especially Jeff, to basically reinvent the way we do things. Hire the right people. Create a separate group that would be focused on that. So, that's another great example, Web services. Next question. So, you have something that didn't work, Amazon already has in Dublin. But I was wondering what became with the movement of Kindle, again, in terms of the fact that you did not have any competition.

How do you see yourself working with like iPad or the Nook? So, what is the question about iPad and the Nook? How do you see yourself positioning versus the iPad and the Nook? So, the question is, Amazon Web Services is an example of something that we had and we just basically reshaped and rented out. But the Kindle was something totally different. How did you come to that? And how do you see the Kindle versus the iPad and the Nook? So, those are two different questions. I'll go to the first one first, which is the Kindle. So, if I still remember it, the first Kindle came out in 2007. And we started hiring the first people to build the Kindle in 2004. The idea was about in 2003 huge resistance from inside the company. Myself first, I've been working 13 years at our hardware company, I said, "We must be crazy building a hardware device. It's hard." And Jeff looks at me and the other two that were with me, and we were obviously wrong. History has proven us wrong.

It has proven him right once again, which is, "Yeah, you're right. We don't know how to build a hardware. But guess what? We're going to learn." And we started. It took two years to hire people, create manufacturing. But the idea he had in mind was already clear. We do not invent an e-book reader. E-book reader has already existed. Sony e-reader was already out. They just

didn't have enough books. And they did not have the idea of wireless connection for which you can download.

So, the vision was, every book in every language in 60 seconds. That's the vision that stayed. And the 60 seconds equaled wireless and created the Nook. No, not the Nook, the Kindle. I was thinking already of the Nook. Look at this part. Yeah, it was really funny, actually. Obviously, if a customer buys a digital book and now the customer buys way more digital books than physical books, the same customers, you cannibalize the sales of physical books, right? But the idea behind it was, and I still remember the exact statement which is, we don't want to be Kodak. We don't want to be a company that relies on printing pictures. You see this huge revolution of the digital imaging coming and doing very little to change printing the picture of business model.

Books was the biggest cash generator for us. And it was a big, bold move. iPad is a huge tailwind for Amazon. iPad and all the same class of computers, all the iPad tablet competitors that are coming out or will come out, are going to be a huge tailwind for Amazon because basically we're going to have more and more people shopping online at different times of days and different locations in the house. We just launched iPad application called Windowshop. They are redesigned completely the way that you can do shopping. So, in fact, it's a different browsing experience. You don't have a mouse. You don't have to click. You have pinching, you have expanding.

And so, we are using the iPad as an example of evolved shopping. I'm not going to say anything about the Nook. So, you talked a little bit about your strategy for entering different countries. But can you maybe talk a little bit about how you prioritize which countries to actually go in, just the progression of time? So the question is, you told us how you make decisions but how do you prioritize the countries? It's easy. We started with country number 2, then we entered number 3 and number 4. We look at the GDP; that's the most important part. What did happen when we started in 1998, UK and Germany were the two largest economies for e-commerce. Then, we went to Japan which was the number 2 in GDP. And then, we went to France. And by doing those four countries with the US, they were the five countries where 95% of e-commerce was happening at that time.

So, countries where payments evolved, infrastructure was evolved, Internet penetration was evolved. So, those are very easy decisions. The hard decision was, do I keep expanding in Europe? Do I do China? And we decided to do China because it's one of the things where 10 years from now you definitely want to be a winner proposition in China. But more countries are going to come up. And usually the decision is simple. It's really seize all the countries, seize all the opportunities. Great. Back there? Can you talk more about how Amazon dealt with the bigger things like Walmart coming in when Amazon was a small company? The question is how Amazon dealt with Walmart and other big competitors when they came in. The answer is very easy. Be focused on the customer.

Just keep improving the customer experience. Just make sure that the customer is happy. If the customer is happy, the customer keeps coming back. That doesn't mean we ignore competition. We monitor competition. We look at what they do, the selection they carry, their new technology. We do have a benchmarking activity. But the idea is stay head focused on the customer experience. That's what it is. I'm going to chime in with a question.

So, we spend a lot of time thinking about startup companies and how in the whole is the Silicon Valley venture back to back. And here, this is a big company up in Seattle, no less. And the question is, how do you maintain an entrepreneurial spirit as the company is so big? I'm going to guess that there's got to be a lot of infrastructure. There have to be rules. How do you keep this innovation and entrepreneurial spirit alive in such a big company? That's a great question. And since you had the mic, I assume everybody heard it right. We actually did have a meeting recently, an outside meeting with Jeff and the management team which is, how do we see the company at \$100 billion and still be proud of the company, of working here? The answer was, well, we need to make sure that the company stays as it is today. That's a good intention. So what are the mechanisms to make it work? It's very, very, very, very, very hard and I said "very" five times. But we are trying to do our things like keeping hierarchy flat.

We try to have very few levels between Jeff, us and the rest of the company. We have a rule for which every single vice-president should never have less than 7, 8, 9, 10 people reporting to them. The point, if you have many people reporting to a vice-president and you use the same methodology, you keep the company pretty much flat. And then, things like making sure that people are encouraged to make experimentation and are encouraged to make mistakes. It's part of the philosophy. Believe me, if you start from the top, it really, really makes it easier to reach that objective. But it's hard. Great. A question from Steve Blank? Sure, Steve. So, besides the Kindle and the AWS, which I think are spectacular innovations.

And I had nothing to do with them. Yeah. But if I was sure of the history, Amazon acquired something like 20 some-odd companies since 1997. How many of the founders are still at Amazon. Those companies, well, some of the names of the companies would give us a root canal, thinking about the mistakes we made. But I would say that IMDB, that's the biggest movie website in the world which belongs to founders that are still there. And IMDB was acquired with the intention of just leave them alone. I would say there are just a couple of examples. Did you have a strategy? Is it something to learn from? This brings up large companies buying disruptive innovation. How do you integrate it? How do you not-integrate it? That's a very

good question.

Every single case is totally different. And the good thing is, never apply a cookie-cutter approach to this. There are some companies that we want to integrate, especially maybe the back end. You buy another retailer. You want to make sure that it's hooked up to our international system. Don't change the customer experience on the front but make it way more efficient. That's one example. Other companies like IMDB and another company that we acquire called Shopbop, which is a fashion retail company, we didn't do anything. Is this a bad sign? Should we leave the room? Anyway, we didn't do anything. Others like the company we acquired in China, Joyo.

The idea was to fully integrate it and make it become Amazon. We knew from the moment that we acquired the company, actually from the due diligence prior to acquiring the company, that that management team two years later would not be around. Actually, six months later they were all gone. So, it all depends. There's not one single recipe. Great. Do we have a question from the audience? I was wondering from personal experience and also experience with Amazon, what do you think are the differences between the Europeans, specifically like an Italian consumer taste versus an American taste versus some taste in Asia? All right. Did you hear the question? The question is, are customers in Europe, for example, and in Asia have a different taste for products, for buying products? And he asked specifically about Italian and Americans. When it comes to buying clothing, I can tell that there is a difference. Especially if you live up in Seattle, oh my God, there is a big difference.

But anyway, the merchandising organizations are all local. So, there are products that are clearly easy to identify because they are pretty much steady. There is very clear data on the demand like books, music. They're only different by countries. But the forecasting algorithms we built, they are the same. So, we do have a way to identify how demand spikes in different countries. There are global phenomena that evolve anywhere in the world, like Harry Potter. Pretty much, they have the same curve, the same demand. And we can predict exactly, looking at how much Harry Potter 5 did, how much Harry Potter 6 is going to be doing exactly in every single country. And then, there are fashion-driven products.

Fashion-driven products, those are the most difficult to forecast. It's still an art more than a software system. So, it all depends on type of products. So, Diego, let me ask you a question. This is a personal question. What keeps you up at night? I mean, what are the biggest challenges that you face? Here, you work in this company. It's a well-oiled machine. What are the biggest challenges you face? The good thing is that I do sleep literally. Now, in-between those, I would say it is still about, how do we make sure that we keep innovating on the customer experience? How do we make sure that we don't fall in love with our number 1 position? Because when you are number 1, you cannot become number 1+. The worst thing that can happen is you become number 2 or number 3.

So, basically it's how to keep innovating for the customers and making sure that you don't become arrogant. You don't become 'un-nice'. When you become a big company, it's easy to be perceived as such. So, this is something that really keeps us awake at night. And it's something that we need to work on, like how to establish a relationship with the authors. That is not a cyborg relationship. We are not just a machine for which the authors are happy if we sell lots of books, they're unhappy if we don't sell enough books. And those are all the things that are, as I said, really, really hard. It's basically pretty much the same answer I gave you before. Great.

Any other questions? Yes? Right here. With regards to your experience in looking for entrepreneurs in developing countries, do you always see a difference between entrepreneurs in developing countries and those in others? So, the question is about my non-paid work experience with Endeavor, if I see differences between entrepreneurs in developing countries and maybe entrepreneurs here in the US or in Europe. Is that a good summary of the question? I would say no, and I would like to hear your opinion, too, for two factors. Number 1, most of the time those entrepreneurs, they had education experience or work experience coming from either the US or Europe. And the common denominator is oftentimes, those are people that started work in the US or in Europe, most of the times in the US. They go back to their country, there's Chile or Jordan or South Africa. And they become entrepreneurs there. So, I don't see that much difference from that perspective. What I noticed is that the enthusiasm from those entrepreneurs is phenomenal. It's really because they know that all the things they can do there, they can really impact the country.

I mean, there are companies in countries like Chile whose GDP is probably one-quarter of the one of California, where two or three companies could make a big impact on the GDP of that country. So, it's more the weight that a local success can be to the country itself because if you think about it in the US, I mean, even a huge success like Microsoft or Amazon or Apple, they're a small fraction of the overall GDP of the United States. I agree with you completely. In fact, I'd say that one of the differentiators is in these countries, they're actually tackling really big local problems. So, not only are they motivated to support themselves, they are motivated to really do something that's going to have a big positive impact. Another question? Yes? What value does the Zappos bring to Amazon? Shoes. The question is, what value is Zappos bringing in to Amazon? For those who don't know, Zappos is a big shoe retailer that we acquired recently. And the shoe retailer that we got had a lot in common, especially when it comes to building a great customer experience. So, it really helped us to make a stride into the fashion business, something for which Amazon was not, and still is, very little in the top of the mind of customers when it comes to

products. If you say Amazon, people will say books, music, electronics.

But seldom would say shoes and apparel. So, this is why Zappos was part of the strategy of keeping a separate brand recognized Amazon as part of the fashion company. Yes? Can you tell us about how Amazon approaches the internet crosses. I mean to you have an internal team that continues tracking new companies? And if so, how do you make sure that the company that you acquired fits in your life, your philosophy? So, the question is, basically how do we do M&A How are we organized? And how do we make evaluations? So, to the first question, which is, do we have an internal group? Yes. It's such an important asset of the company. It is something that we don't want to give out that much. It belongs to the way we do business, also because our philosophy is so peculiar, is so unique, that you don't want to teach a banker, an external company every time the way we look like, which by the way, the parallel I'm drawing here, even the executive search. Most of the executive search at Amazon is done internally. We have an executive search team. We do but we seldom use external search companies.

So, that was the answer to your first question. And the second one is, the portfolio company we look at, it's very difficult to give you one answer, goes from Zappos as retailer to a technology company. We acquired a company that helped us take pictures of barcodes from mobile computing, which is going to be the next big evolution of e-commerce. So, it really depends on the company. We do acquisitions of multi-hundred-million dollars to acquisition of a few million dollars. So, we have a very qualified team of business development experts that work with the business owner of that team. The good thing is that we at Amazon, and this makes me smile when other companies have it, we don't have a strategy department. Your companies have a chief strategist office. Thinking of a strategy is different than thinking of your own business. There is no such thing.

Every single owner of the business needs to know what the strategy is, whether it's gross acquisition or organic or another way. I'm going to give the last question to Steve Blank. What's interesting about Amazon is it has followed the model of Apple, Oracle and Microsoft, who are the founders or the exceptions that actually stayed running large corporations. In fact, most entrepreneurs have seen the founders were placed by an operating exec. What would happen to Amazon when Jeff Bezos decides to retire? I mean, what is it about DNA? So, the question is, Amazon is a company in a small handful of companies like Apple or Oracle or, what else did you mention? Microsoft. Microsoft, well Bill's gone. And in Apple, Steve came and went. So, the question is, what happens if and when Jeff goes away? So, first of all, Jeff is really young. And he's not going to go away anytime soon. He owns a big chunk of the company.

And he's so passionate about building the next thing. And he's all over the details of the company still. So, there is no short-term issue with that. But the real answer is that he has been able to build such a deep entrenched culture of passion of innovation and customer centricity that it isn't the company. Now, he definitely pushes the edge. He pushes the envelope a lot in Kindle. It's something that he really had in mind. But now, there are many things that a company highly innovative that really happened outside of projections. And I do think that the company has succeeded in building that culture of innovation even without the founder being around. So, join me in thanking Diego for coming all the way from Seattle.

Thank you.