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# amazon.com

To our shareholders:

Amazon.com passed many milestones in 1997: by year-end, we had served more than 1.5 million customers, yielding 838% revenue growth to \$147.8 million, and extended our market leadership despite aggressive competitive entry.

But this is Day 1 for the Internet and, if we execute well, for Amazon.com. Today, online commerce saves customers money and precious time. Tomorrow, through personalization, online commerce will accelerate the very process of discovery. Amazon.com uses the Internet to create real value for its customers and, by doing so, hopes to create an enduring franchise, even in established and large markets.

We have a window of opportunity as larger players marshal the resources to pursue the online opportunity and as customers, new to purchasing online, are receptive to forming new relationships. The competitive landscape has continued to evolve at a fast pace. Many large players have moved online with credible offerings and have devoted substantial energy and resources to building awareness, traffic, and sales. Our goal is to move quickly to solidify and extend our current position while we begin to pursue the online commerce opportunities in other areas. We see substantial opportunity in the large markets we are targeting. This strategy is not without risk: it requires serious investment and crisp execution against established franchise leaders.

### *It's All About the Long Term*

We believe that a fundamental measure of our success will be the shareholder value we create over the *long term*. This value will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital.

Our decisions have consistently reflected this focus. We first measure ourselves in terms of the metrics most indicative of our market leadership: customer and revenue growth, the degree to which our customers continue to purchase from us on a repeat basis, and the strength of our brand. We have invested and will continue to invest aggressively to expand and leverage our customer base, brand, and infrastructure as we move to establish an enduring franchise.

Because of our emphasis on the long term, we may make decisions and weigh tradeoffs differently than some companies. Accordingly, we want to share with you our fundamental management and decision-making approach so that you, our shareholders, may confirm that it is consistent with your investment philosophy:

We will continue to focus relentlessly on our customers.

- We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.
- We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.
- We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.
- When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.
- We will share our strategic thought processes with you when we make bold choices (to the extent competitive pressures allow), so that you may evaluate for yourselves whether we are making rational long-term leadership investments.
- We will work hard to spend wisely and maintain our lean culture. We understand the importance of continually reinforcing a cost-conscious culture, particularly in a business incurring net losses.
- We will balance our focus on growth with emphasis on long-term profitability and capital management. At this stage, we choose to prioritize growth because we believe that scale is central to achieving the potential of our business model.
- We will continue to focus on hiring and retaining versatile and talented employees, and continue to weight their compensation to stock options rather than cash. We know our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner.

We aren't so bold as to claim that the above is the "right" investment philosophy, but it's ours, and we would be remiss if we weren't clear in the approach we have taken and will continue to take.

With this foundation, we would like to turn to a review of our business focus, our progress in 1997, and our outlook for the future.

### *Obsess Over Customers*

From the beginning, our focus has been on offering our customers compelling value. We realized that the Web was, and still is, the World Wide Wait. Therefore, we set out to offer customers something they simply could not get any other way, and began serving them with books. We brought them much more selection than was possible in a physical store (our store would now occupy 6 football fields), and presented it in a useful, easy-to-search, and easy-to-browse format in a store open 365 days a year, 24 hours a day. We maintained a dogged focus on improving the shopping experience, and in 1997 substantially enhanced our store. We now offer customers gift certificates, 1-Click(SM) shopping, and vastly more reviews, content, browsing options, and recommendation features. We dramatically lowered prices, further increasing customer value. Word of mouth remains the most powerful customer acquisition tool we have, and we are grateful for the trust our customers have placed in us. Repeat purchases and word of mouth have combined to make Amazon.com the market leader in online bookselling.

By many measures, Amazon.com came a long way in 1997:

- Sales grew from \$15.7 million in 1996 to \$147.8 million -- an 838% increase.
- Cumulative customer accounts grew from 180,000 to 1,510,000 -- a 738% increase.
- The percentage of orders from repeat customers grew from over 46% in the fourth quarter of 1996 to over 58% in the same period in 1997.
- In terms of audience reach, per Media Metrix, our Web site went from a rank of 90th to within the top 20.
- We established long-term relationships with many important strategic partners, including America Online, Yahoo!, Excite, Netscape, GeoCities, AltaVista, @Home, and Prodigy.

### *Infrastructure*

During 1997, we worked hard to expand our business infrastructure to support these greatly increased traffic, sales, and service levels:

- Amazon.com's employee base grew from 158 to 614, and we significantly strengthened our management team.
- Distribution center capacity grew from 50,000 to 285,000 square feet, including a 70% expansion of our Seattle facilities and the launch of our second distribution center in Delaware in November.
- Inventories rose to over 200,000 titles at year-end, enabling us to improve availability for our customers.
- Our cash and investment balances at year-end were \$125 million, thanks to our initial public offering in May 1997 and our \$75 million loan, affording us substantial strategic flexibility.

### *Our Employees*

The past year's success is the product of a talented, smart, hard-working group, and I take great pride in being a part of this team. Setting the bar high in our approach to hiring has been, and will continue to be, the single most important element of Amazon.com's success.

It's not easy to work here (when I interview people I tell them, "You can work long, hard, or smart, but at Amazon.com you can't choose two out of three"), but we are working to build something important, something that matters to our customers, something that we can all tell our grandchildren about. Such things aren't meant to be easy. We are incredibly fortunate to have this group of dedicated employees whose sacrifices and passion build Amazon.com.

### *Goals for 1998*

We are still in the early stages of learning how to bring new value to our customers through Internet commerce and merchandising. Our goal remains to continue to solidify and extend our brand and customer base. This requires sustained investment in systems and infrastructure to support outstanding customer convenience, selection, and service while we grow. We are planning to add music to our product offering, and over time we believe that other products may be prudent investments. We also believe there are significant opportunities to better serve our customers overseas, such as reducing delivery times and better tailoring the customer experience. To be certain, a big part of the challenge for us will lie not in finding new ways to expand our business, but in prioritizing our investments.

We now know vastly more about online commerce than when Amazon.com was founded, but we still have so much to learn. Though we are optimistic, we must remain vigilant and maintain a sense of urgency. The challenges and hurdles we will face to make our long-term vision for Amazon.com a reality are several: aggressive, capable, well-funded competition; considerable growth challenges and execution risk; the risks of product and geographic expansion; and the need for large continuing investments to meet an expanding market opportunity. However, as we've long said, online bookselling, and online commerce in general, should prove to be a very large market, and it's likely that a number of companies will see significant benefit. We feel good about what we've done, and even more excited about what we want to do.

1997 was indeed an incredible year. We at Amazon.com are grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement.

/s/ JEFFREY P. BEZOS  
Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

# amazon.com

To our shareholders, customers, and employees:

The last 3½ years have been exciting. We've served a cumulative 6.2 million customers, exited 1998 with a \$1 billion revenue run rate, launched music, video, and gift stores in the U.S., opened shop in the U.K. and Germany, and, just recently, launched Amazon.com Auctions.

We predict the next 3½ years will be even more exciting. We are working to build a place where tens of millions of customers can come to find and discover anything they might want to buy online. It is truly Day 1 for the Internet and, if we execute our business plan well, it remains Day 1 for Amazon.com. Given what's happened, it may be difficult to conceive, but we think the opportunities and risks ahead of us are even greater than those behind us. We will have to make many conscious and deliberate choices, some of which will be bold and unconventional. Hopefully, some will turn out to be winners. Certainly, some will turn out to be mistakes.

## *A Recap of 1998*

Heads-down focus on customers helped us make substantial progress in 1998:

- Sales grew from \$148 million in 1997 to \$610 million – a 313% increase.
- Cumulative customer accounts grew from 1.5 million at the end of 1997 to 6.2 million at the end of 1998 – an increase of over 300%.
- Despite this strong new customer growth, the percentage of orders placed on the Amazon.com Web site by repeat customers grew from over 58% in the fourth quarter of 1997 to over 64% in the same period in 1998.
- Our first major product expansion, the Amazon.com music store, became the leading online music retailer in its first full quarter.
- Following their October launch under the Amazon brand and with Amazon.com technology, the combined fourth-quarter sales in the U.K. and German stores nearly quadrupled over the third quarter, establishing Amazon.co.uk and Amazon.de as the leading online booksellers in their markets.
- The addition of music was followed by the addition of video and gifts in November, and we became the leading online video retailer in only 6 weeks.
- 25% of our fourth-quarter 1998 sales was derived from Amazon.co.uk, Amazon.de, and music, video, and gift sales on Amazon.com, all very new businesses.
- We significantly improved the customer experience, with innovations like 1-Click<sup>SM</sup> shopping, Gift Click, store-wide sales rank, and instant recommendations.

1998's revenue and customer growth and achievement of continued growth in 1999 were and are dependent on expansion of our infrastructure. Some highlights:

- In 1998 our employee base grew from approximately 600 to over 2,100, and we significantly strengthened our management team.
- We opened distribution and customer service centers in the U.K. and Germany, and in early 1999, announced the lease of a highly-mechanized distribution center of approximately 323,000 square feet in Fernley, Nevada. This latest addition will more than double our total distribution capacity and allows us to even further improve time-to-mailbox for customers.
- Inventories rose from \$9 million at the beginning of the year to \$30 million by year end, enabling us to improve product availability for our customers and improve product costs through direct purchasing from manufacturers.
- Our cash and investment balances, following our May 1998 high yield debt offering and early 1999 convertible debt offering, now stand at well over \$1.5 billion (on a pro forma basis), affording us substantial financial strength and strategic flexibility.

We're fortunate to benefit from a business model that is cash-favored and capital efficient. As we do not need to build physical stores or stock those stores with inventory, our centralized distribution model has allowed us to build our business to a billion-dollar sales rate with just \$30 million in inventory and \$30 million in net plant and equipment. In 1998, we generated \$31 million in operating cash flow which more than offset net fixed asset additions of \$28 million.

### *Our Customers*

We intend to build the world's most customer-centric company. We hold as axiomatic that customers are perceptive and smart, and that brand image follows reality and not the other way around. Our customers tell us that they choose Amazon.com and tell their friends about us because of the selection, ease-of-use, low prices, and service that we deliver.

But there is no rest for the weary. I constantly remind our employees to be afraid, to wake up every morning terrified. Not of our competition, but of our customers. Our customers have made our business what it is, they are the ones with whom we have a relationship, and they are the ones to whom we owe a great obligation. And we consider them to be loyal to us – right up until the second that someone else offers them a better service.

We must be committed to constant improvement, experimentation, and innovation in every initiative. We love to be pioneers, it's in the DNA of the company, and it's a good thing, too, because we'll need that pioneering spirit to succeed. We're proud of the differentiation we've built through constant innovation and relentless focus on customer experience, and we believe our initiatives in 1998 reflect it: our music, video, U.K. and German stores, like our U.S. bookstore, are best of breed.

*Work Hard, Have Fun, Make History*

It would be impossible to produce results in an environment as dynamic as the Internet without extraordinary people. Working to create a little bit of history isn't supposed to be easy, and, well, we're finding that things are as they're supposed to be! We now have a team of 2,100 smart, hard-working, passionate folks who put customers first. Setting the bar high in our approach to hiring has been, and will continue to be, the single most important element of Amazon.com's success.

During our hiring meetings, we ask people to consider three questions before making a decision:

- *Will you admire this person?* If you think about the people you've admired in your life, they are probably people you've been able to learn from or take an example from. For myself, I've always tried hard to work only with people I admire, and I encourage folks here to be just as demanding. Life is definitely too short to do otherwise.
- *Will this person raise the average level of effectiveness of the group they're entering?* We want to fight entropy. The bar has to continuously go up. I ask people to visualize the company 5 years from now. At that point, each of us should look around and say, "The standards are so high now -- boy, I'm glad I got in when I did!"
- *Along what dimension might this person be a superstar?* Many people have unique skills, interests, and perspectives that enrich the work environment for all of us. It's often something that's not even related to their jobs. One person here is a National Spelling Bee champion (1978, I believe). I suspect it doesn't help her in her everyday work, but it does make working here more fun if you can occasionally snag her in the hall with a quick challenge: "onomatopoeia!"



*Goals for 1999*

As we look forward, we believe that the overall e-commerce opportunity is enormous, and 1999 will be an important year. Although Amazon.com has established a strong leadership position, it is certain that competition will even further accelerate. We plan to invest aggressively to build the foundation for a multi-billion-dollar revenue company serving tens of millions of customers with operational excellence and high efficiency. Although this level of forward investment is costly and carries many inherent risks, we believe it will provide the best end-to-end experience for customers, and actually offer the least risky long-term value creation approach for investors.

The elements of our 1999 plan may not surprise you:

**Distribution capacity** – We intend to build out a significant distribution infrastructure to ensure that we can support all the sales our customers demand, with speedy access to a deep product inventory.

**Systems capacity** – We'll be expanding our systems capacity to support similar growth levels. The systems group has a significant task: expand to meet near term growth, restructure systems for multi-billion dollar scale and tens of millions of customers, build out features and systems for new initiatives and new innovations, and increase operational excellence and efficiency. All while keeping a billion dollar, 8 million customer store up and available on a 24x7 basis.

**Brand promise** – Amazon.com is still a small and young company relative to the major offline retailers, and we must ensure that we build wide, strong customer relationships during this critical period.

**Expanded product and service offerings** – In 1999, we will continue to enhance the scope of our current product and service offerings, as well as add new initiatives. Amazon.com Auctions is our most recent addition. If any of you have not tried this new service, I encourage you to run – not walk – to [www.amazon.com](http://www.amazon.com) and click on the Auctions tab. As an Amazon.com customer, you are pre-registered to both bid and sell. As a seller, you have access to Amazon.com's 8 million experienced online shoppers.

**Bench strength and processes** – We've complicated our business dramatically with new products, services, geographies, acquisitions and additions to our business model. We intend to invest in teams, processes, communication and people development practices. Scaling in this way is among the most challenging and difficult elements of our plan.

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Amazon.com has made a number of strides forward in the past year, but there is still an enormous amount to learn and to do. We remain optimistic, but we also know we must remain vigilant and maintain a sense of urgency. We face many challenges and hurdles. Among them, aggressive, capable and well-funded competition; the growth challenges and execution risk associated with our own expansion; and the need for large continuing investments to meet an expanding market opportunity.

The most important thing I could say in this letter was said in last year's letter, which detailed our long-term investment approach. Because we have so many new shareholders (this year we're printing more than 200,000 of these letters – last year we printed about 13,000), we've appended last year's letter immediately after this year's. I invite you to please read the section entitled *It's All About the Long Term*. You might want to read it twice to make sure we're the kind of company you want to be invested in. As it says there, we don't claim it's the right philosophy, we just claim it's ours!

All the best and sincere thanks once again to our customers and shareholders and all the folks here who are working passionately every day to build an important and lasting company.

Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareholders:

The first 4½ years of our journey have yielded some amazing results: we've now served over 17 million customers in over 150 countries and built the leading global e-commerce brand and platform.

In the coming years we expect to benefit from the continued adoption of online commerce around the world as millions of new consumers connect to the Internet for the first time. As the online shopping experience continues to improve, consumer trust and confidence will increase, driving further adoption. And, if we at Amazon.com do our job right, we can be uniquely positioned to serve these new customers best and benefit as a result.

#### *A Recap of 1999*

During 1999, our relentless focus on customers worked:

- Sales grew from \$610 million in 1998 to \$1.64 billion – a 169 percent increase.
- We added 10.7 million new customers, increasing cumulative customer accounts from 6.2 million to 16.9 million.
- The percentage of orders placed by repeat customers grew from over 64 percent in the fourth quarter of 1998 to greater than 73 percent in the same period in 1999.
- Customers around the world are now choosing Amazon.com for a wide array of products. Only two years ago, Amazon.com's U.S. Books business represented 100 percent of our sales. Today, despite strong growth in U.S. Books, other areas account for more than half our sales. Major 1999 initiatives included Auctions, zShops, Toys, Consumer Electronics, Home Improvement, Software, Video Games, Payments and our wireless initiative, Amazon Anywhere.
- We've continued to be recognized as best-of-breed not only in our more established areas such as books, but in our newer stores as well. Just to focus on one area, Amazon Toys has received multiple awards, including being rated the best online toy store in an MSNBC survey, a ranking as the No. 1 on-line toy store by Forrester Research, and the top e-Rating from Consumer Reports in the toys category, in each case beating out a number of longer-established players.
- Sales outside of the US accounted for 22 percent of our business, totaling \$358 million. In the U.K. and Germany, we added Music, Auctions and zShops. In fact, Amazon.co.uk, Amazon.de, and Amazon.com are now the #1, #2, and #3 most popular online retail domains in Europe.
- We grew worldwide distribution capacity from roughly 300,000 square feet to over 5 million square feet in less than 12 months.

- In part because of this infrastructure, we were able to grow revenues 90 percent in just three months, while shipping well over 99 percent of our holiday orders in time for the holidays. As far as we can determine, no other company has ever grown 90 percent in three months on a sales base of over \$1 billion.

I'm incredibly proud of everyone at Amazon.com for their tireless efforts to deliver what has become the standard-setting, Amazon.com-class customer experience while simultaneously handling such extraordinary growth rates. If any of you shareholders would like to thank this incredible worldwide team of Amazonians, please feel free to send an email to [jeff@amazon.com](mailto:jeff@amazon.com). With help from my astounding office staff, I'll compile them and send them to the company. I know it would be appreciated. (As a side benefit I'll get to see if anyone reads these letters!)

In 1999, we continued to benefit from a business model that is inherently capital efficient. We don't need to build physical stores or stock those stores with inventory, and our centralized distribution model has allowed us to build a business with over \$2 billion in annualized sales but requiring just \$220 million in inventory and \$318 million in fixed assets. Over the last five years, we've cumulatively used just \$62 million in operating cash.

#### *What Do You Own?*

At a recent event at the Stanford University campus, a young woman came to the microphone and asked me a great question: "I have 100 shares of Amazon.com. What do I own?"

I was surprised I hadn't heard it before, at least not so simply put. What do you own? You own a piece of the leading e-commerce platform.

The Amazon.com platform is comprised of brand, customers, technology, distribution capability, deep e-commerce expertise, and a great team with a passion for innovation and a passion for serving customers well. We begin the year 2000 with 17 million customers, a world-wide reputation for customer focus, the best e-commerce software systems, and purpose-built distribution and customer service infrastructure. We believe we have reached a "tipping point," where this platform allows us to launch new e-commerce businesses faster, with a higher quality of customer experience, a lower incremental cost, a higher chance of success, and a faster path to scale and profitability than any other company.

Our vision is to use this platform to build Earth's most customer-centric company, a place where customers can come to find and discover anything and everything they might want to buy online. We won't do so alone, but together with what will be thousands of partners of all sizes. We'll listen to customers, invent on their behalf, and personalize the store for each of them, all while working hard to continue to earn their trust. As is probably clear, this platform affords an unusually large scale opportunity, one that should

prove very valuable for both customers and shareholders if we can make the most of it. Despite the many risks and complexities, we are deeply committed to doing so.

### *Goals for 2000*

In the year 2000, Amazon.com has six major goals: growth in both the number of our customers and the strength of the relationship we have with each of them; continued rapid expansion of the products and services we offer; driving operational excellence in all areas of the company; international expansion; expanding our partnership programs; and last, importantly, driving toward profitability in each and every business we are in. I'll spend a moment on each goal.

**Growing and strengthening customer relationships** — We will continue to invest heavily in introductions to new customers. Though it's sometimes hard to imagine with all that has happened in the last five years, this remains Day 1 for e-commerce, and these are the early days of category formation where many customers are forming relationships for the first time. We must work hard to grow the number of customers who shop with us, the number of products they purchase, the frequency with which they shop, and the level of satisfaction they have when they do so.

**Product and service expansion** — We are working to build a place where customers can find and discover anything they want to buy, anytime, anywhere. Each new product and service we offer makes us more relevant to a wider group of customers and can increase the frequency with which they visit our store. So, as we expand our offering, we create a virtuous cycle for the whole business. The more frequently customers visit our store, the less time, energy, and marketing investment is required to get them to come back again. In sight, in mind.

Further, as we expand, each new store has a dedicated team working to make it best-of-breed in its category; thus each new store is also a new opportunity to demonstrate to customers our focus on them. Finally, each new product or service further leverages our investments in distribution, customer service, technology, and brand, and can yield increased leverage on our bottom line.

**Operational excellence** — To us, operational excellence implies two things: delivering continuous improvement in customer experience and driving productivity, margin, efficiency, and asset velocity across all our businesses.

Often, the best way to drive one of these is to deliver the other. For instance, more efficient distribution yields faster delivery times, which in turn lowers contacts per order and customer service costs. These, in turn, improve customer experience and build brand, which in turn decreases customer acquisition and retention costs.

Our whole company is highly focused on driving operational excellence in each area of our business in 2000. Being world class in both customer experience and operations will allow us to grow faster and deliver even higher service levels.

**International expansion** — We think that consumers outside the U.S. are even more under-served by retail than those within it, and, with our platform in place, Amazon.com is well positioned to be a leading global retailer. We already have significant brand, sales and customer presence around the world, as we've been shipping into over 150 countries for almost five years. I'm pleased to report that our stores in the UK and Germany are off to a strong start – they are already in the top 10 Web properties and the # 1 e-commerce site in each of their respective countries. Our customers and shareholders around the world can look forward to further geographic expansion from this base during the coming year.

**Expanding our partnership program** — Through our platform, we are able to bring tremendous value to our partners, such as drugstore.com. In fact, our experience so far suggests that Amazon.com may easily be the most efficient, effective means for our partners to build their businesses. In many areas, partnering is the best way for us to rapidly expand our store in a customer-focused, cost-effective manner. One point worth emphasizing: the quality of customer experience a partner delivers is the single most important criteria in our selection process – we simply won't build a partnership with any company that does not share our passion for serving customers.

We love these kinds of partnerships because they please customers, please our partners, and are financially attractive, pleasing our shareholders – you and us.

**Drive toward profitability in each business we are in** — Each of the previous goals I've outlined contribute to our long-standing objective of building the best, most profitable, highest return on capital, long-term franchise. So in a way, driving profitability is the foundation underlying all of these goals. In the coming year, we expect to deliver substantial margin improvement and cost leverage as we drive continuous improvement in our partnerships with suppliers, in our own productivity and efficiency, in our management of fixed and working capital, and our expertise in managing product mix and price.

Each successive product and service we launch this year should build on our platform, so our investment curve can be less steep and the time to profitability for each business should, in general, continue to shorten.

### *It's All About the Long Term*

In our 1997 letter to shareholders (our first), we detailed our long-term investment approach. Because we continue to add many new shareholders, we've appended that letter immediately after this year's. I invite you to please read the section entitled *It's All About the Long Term*, as it is the best way I know to help make sure we're the kind of company you want to be invested in. As we wrote there, we don't claim it's the right philosophy, we just claim it's ours!

In closing, consider this most important point: the current online shopping experience is the worst it will ever be. It's good enough today to attract 17 million customers, but it will get so much better. Increased bandwidth will result in faster page views and richer content. Further improvements will lead to "always-on access" (which I expect will be a strong boost to online shopping at home, as opposed to the office) and we'll see significant growth in non-PC devices and wireless access. Moreover, it's great to be participating in what is a multi-trillion dollar global market, in which we are so very, very tiny. We are doubly-blessed. We have a market-size unconstrained opportunity in an area where the underlying foundational technology we employ improves every day. That is not normal.

As always, we at Amazon.com remain grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement. Many, many thanks.

Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

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To our shareholders:

Ouch. It's been a brutal year for many in the capital markets and certainly for Amazon.com shareholders. As of this writing, our shares are down more than 80% from when I wrote you last year. Nevertheless, by almost any measure, Amazon.com the company is in a stronger position now than at any time in its past.

- We served 20 million customers in 2000, up from 14 million in 1999.
- Sales grew to \$2.76 billion in 2000 from \$1.64 billion in 1999.
- Pro forma operating loss shrank to 6% of sales in Q4 2000, from 26% of sales in Q4 1999.
- Pro forma operating loss in the U.S. shrank to 2% of sales in Q4 2000, from 24% of sales in Q4 1999.
- Average spend per customer in 2000 was \$134, up 19%.
- Gross profit grew to \$656 million in 2000, from \$291 million in 1999, up 125%.
- Almost 36% of Q4 2000 U.S. customers purchased from one of our ‘non-BMV’ stores such as electronics, tools, and kitchen.
- International sales grew to \$381 million in 2000, from \$168 million in 1999.
- We helped our partner Toysrus.com sell more than \$125 million of toys and video games in Q4 2000.
- We ended 2000 with cash and marketable securities of \$1.1 billion, up from \$706 million at the end of 1999, thanks to our early 2000 euroconvert financing.
- And, most importantly, our heads-down focus on the customer was reflected in a score of 84 on the American Customer Satisfaction Index. We are told this is the highest score ever recorded for a service company in any industry.

So, if the company is better positioned today than it was a year ago, why is the stock price so much lower than it was a year ago? As the famed investor Benjamin Graham said, ‘In the short term, the stock market is a voting machine; in the long term, it's a weighing machine.’ Clearly there was a lot of voting going on in the boom year of '99—and much less weighing. We're a company that wants to be weighed, and over time, we will be—over the long term, all companies are. In the meantime, we have our heads down working to build a heavier and heavier company.

Many of you have heard me talk about the ‘bold bets’ that we as a company have made and will continue to make—these bold bets have included everything from our investment in digital and wireless technologies, to our decision to invest in smaller e-commerce companies, including living.com and Pets.com, both of which shut down operations in 2000. We were significant shareholders in both and lost a significant amount of money on both.

We made these investments because we knew we wouldn't ourselves be entering these particular categories any time soon, and we believed passionately in the ‘land rush’ metaphor for the Internet. Indeed, that metaphor was an extraordinarily useful decision aid for several years starting in 1994, but we now believe its usefulness largely faded away over the last couple of years. In retrospect, we significantly underestimated how much time would be available to enter these categories and underestimated how difficult it would be for single-category e-commerce companies to achieve the scale necessary to succeed.

Online selling (relative to traditional retailing) is a scale business characterized by high fixed costs and relatively low variable costs. This makes it difficult to be a medium-sized e-commerce company. With a long



enough financing runway, Pets.com and living.com may have been able to acquire enough customers to achieve the needed scale. But when the capital markets closed the door on financing Internet companies, these companies simply had no choice but to close their doors. As painful as that was, the alternative—investing more of our own capital in these companies to keep them afloat—would have been an even bigger mistake.

*Future: Real Estate Doesn't Obey Moore's Law.*

Let's move to the future. Why should you be optimistic about the future of e-commerce and the future of Amazon.com?

Industry growth and new customer adoption will be driven over the coming years by relentless improvements in the customer experience of online shopping. These improvements in customer experience will be driven by innovations made possible by dramatic increases in available bandwidth, disk space, and processing power, all of which are getting cheap fast.

Price performance of processing power is doubling about every 18 months (Moore's Law), price performance of disk space is doubling about every 12 months, and price performance of bandwidth is doubling about every 9 months. Given that last doubling rate, Amazon.com will be able to use 60 times as much bandwidth per customer 5 years from now while holding our bandwidth cost per customer constant. Similarly, price performance improvements in disk space and processing power will allow us to, for example, do ever more and better real-time personalization of our Web site.

In the physical world, retailers will continue to use technology to reduce costs, but not to transform the customer experience. We too will use technology to reduce costs, but the bigger effect will be using technology to drive adoption and revenue. We still believe that some 15% of retail commerce may ultimately move online.

While there are no foregone conclusions, and we still have much to prove, Amazon.com today is a unique asset. We have the brand, the customer relationships, the technology, the fulfillment infrastructure, the financial strength, the people, and the determination to extend our leadership in this infant industry and to build an important and lasting company. And we will do so by keeping the customer first.

The year 2001 will be an important one in our development. Like 2000, this year will be a year of focus and execution. As a first step, we've set the goal of achieving a pro forma operating profit in the fourth quarter. While we have a tremendous amount of work to do and there can be no guarantees, we have a plan to get there, it's our top priority, and every person in this company is committed to helping with that goal. I look forward to reporting to you our progress in the coming year.

As I usually do, I've appended our 1997 letter, our first letter to shareholders. It gets more interesting every year that goes by, in part because so little has changed. I especially draw your attention to the section entitled "It's All About the Long Term."

We at Amazon.com remain grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement. Many, many thanks.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareholders:

In July of last year, Amazon.com reached an important way station. After four years of single-minded focus on growth, and then just under two years spent almost exclusively on lowering costs, we reached a point where we could afford to balance growth and cost improvement, dedicating resources and staffed projects to both. Our major price reduction in July, moving to discount books over \$20 by 30% off list, marked this change.

This balance began to pay off in the fourth quarter, when we both significantly exceeded our own goals on the bottom line and simultaneously reaccelerated growth in our business. We lowered prices again in January when we offered a new class of shipping that is free (year-round) on orders over \$99. Focus on cost improvement makes it possible for us to afford to lower prices, which drives growth. Growth spreads fixed costs across more sales, reducing cost per unit, which makes possible more price reductions. Customers like this, and it's good for shareholders. Please expect us to repeat this loop.

As I mentioned, we exceeded our goals for the fourth quarter with pro forma operating profit of \$59 million and pro forma net profit of \$35 million. Thousands of Amazon.com employees around the world worked hard to achieve that goal; they are, and should be, proud of the accomplishment. More highlights from a notable year:

- Sales grew 13% from \$2.76 billion in 2000 to \$3.12 billion in 2001; we achieved our first billion-dollar quarter on reaccelerated sales and 23% year-over-year unit growth in Q4.
- We served 25 million customer accounts in 2001, compared to 20 million in 2000 and 14 million in 1999.
- International sales grew 74% in 2001, and more than one-quarter of sales came from outside the U.S. The U.K. and Germany, our largest international markets, had a combined pro forma operating profit for the first time in Q4. Open only a year, Japan grew to a \$100 million annual run rate in Q4.
- Hundreds of thousands of small businesses and individuals made money by selling new and used products to our customers directly from our highly trafficked product detail pages. These Marketplace orders grew to 15% of U.S. orders in Q4, far surpassing our expectations when we launched Marketplace in November 2000.
- Inventory turns increased from 12 in 2000 to 16 in 2001.

- Most important, we stayed relentlessly focused on the customer, as reflected in a chart-topping score of 84 for the second year in a row on the widely followed American Customer Satisfaction Index conducted by the University of Michigan. We are told this is the highest score ever recorded--not just for any retailer, but for any service company.

*Obsess over customers: our commitment continues*

Until July, Amazon.com had been primarily built on two pillars of customer experience: selection and convenience. In July, as I already discussed, we added a third customer experience pillar: relentlessly lowering prices. You should know that our commitment to the first two pillars remains as strong as ever.

We now have more than 45,000 items in our electronics store (about seven times the selection you're likely to find in a big-box electronics store), we've tripled our kitchen selection (you'll find all the best brands), we've launched computer and magazine subscriptions stores, and we've added selection with strategic partners such as Target and Circuit City.

We've improved convenience with features like Instant Order Update, which warns you if you're about to buy the same item twice (people are busy--they forget that they've already bought it!).

We've dramatically improved customer self-service capabilities. Customers can now easily find, cancel, or modify their own orders. To find an order, just make sure you are signed in and recognized by the site, and do a regular search on any product in your order. When you get to that product's detail page, a link to your order will be at the top of the page.

We built a new feature called Look Inside the Book. Customers can view large high-resolution images of not only the front cover of a book, but also the back cover, index, table of contents, and a reasonable sample of the inside pages. They can Look Inside the Book before making a buying decision. It's available on over 200,000 of our millions of titles (as a point of comparison, a typical book superstore carries about 100,000 titles).

As my last example, I'll just point out that one of the most important things we've done to improve convenience and experience for customers also happens to be a huge driver of variable cost productivity: eliminating mistakes and errors at their root. Every year that's gone by since Amazon.com's founding, we've done a better and better job of eliminating errors, and this past year was our best ever. Eliminating the root causes of errors saves us money and saves customers time.

Our consumer franchise is our most valuable asset, and we will nourish it with innovation and hard work.

*An investment framework*

In every annual letter (including this one), we attach a copy of our original 1997 letter to shareholders to help investors decide if Amazon.com is the right kind of investment for them, and to help us determine if we have remained true to our original goals and values. I think we have.

In that 1997 letter, we wrote, “When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we’ll take the cash flows.”

Why focus on cash flows? Because a share of stock is a share of a company's future cash flows, and, as a result, cash flows more than any other single variable seem to do the best job of explaining a company's stock price over the long term.

If you could know for certain just two things--a company's future cash flows and its future number of shares outstanding--you would have an excellent idea of the fair value of a share of that company's stock today. (You'd also need to know appropriate discount rates, but if you knew the future cash flows *for certain*, it would also be reasonably easy to know which discount rates to use.) It's not easy, but you can make an informed forecast of future cash flows by examining a company's performance in the past and by looking at factors such as the leverage points and scalability in that company's model. Estimating the number of shares outstanding in the future requires you to forecast items such as option grants to employees or other potential capital transactions. Ultimately, your determination of cash flow per share will be a strong indicator of the price you might be willing to pay for a share of ownership in any company.

Since we expect to keep our fixed costs largely fixed, even at significantly higher unit volumes, we believe Amazon.com is poised over the coming years to generate meaningful, sustained, free cash flow. Our goal for 2002 reflects just that. As we said in January when we reported our fourth quarter results, we plan this year to generate positive operating cash flow, leading to free cash flow (the difference between the two is up to \$75 million of planned capital expenditures). Our trailing twelve-month pro forma net income should, roughly but not perfectly, trend like trailing twelve-month cash flow.

Limiting share count means more cash flow per share and more long-term value for owners. Our current objective is to target net dilution from employee stock options (grants net of cancellations) to an average of 3% per year over the next five years, although in any given year it might be higher or lower.

*Relentless commitment to long-term shareholder value*

As I've discussed many times before, we are firm believers that the long-term interests of shareholders are tightly linked to the interests of our customers: if we do our jobs right, today's customers will buy more tomorrow, we'll add more customers in the process, and it will all add up to more cash flow and more long-term value for our shareholders. To that end, we are

committed to extending our leadership in e-commerce in a way that benefits customers and therefore, inherently, investors--you can't do one without the other.

As we kick off 2002, I am happy to report that I am as enthusiastic as ever about this business. There is more innovation ahead of us than behind us, we are close to demonstrating the operating leverage of our business model, and I get to work with this amazing team of Amazonians all over the world. I am lucky and grateful. We thank you, our owners, for your support, your encouragement, and for joining us on this adventure. If you're a customer, we thank you again!



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

**1997 Letter reprint  
available on pages  
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To our shareholders:

In many ways, Amazon.com is not a normal store. We have deep selection that is unconstrained by shelf space. We turn our inventory 19 times in a year. We personalize the store for each and every customer. We trade real estate for technology (which gets cheaper and more capable every year). We display customer reviews critical of our products. You can make a purchase with a few seconds and one click. We put used products next to new ones so you can choose. We share our prime real estate—our product detail pages—with third parties, and, if they can offer better value, we let them.

One of our most exciting peculiarities is poorly understood. People see that we're determined to offer both world-leading customer experience *and* the lowest possible prices, but to some this dual goal seems paradoxical if not downright quixotic. Traditional stores face a time-tested tradeoff between offering high-touch customer experience on the one hand and the lowest possible prices on the other. How can Amazon.com be trying to do both?

The answer is that we transform much of customer experience—such as unmatched selection, extensive product information, personalized recommendations, and other new software features—into largely a fixed expense. With customer experience costs largely fixed (more like a publishing model than a retailing model), our costs as a percentage of sales can shrink rapidly as we grow our business. Moreover, customer experience costs that remain variable—such as the variable portion of fulfillment costs—improve in our model as we reduce defects. Eliminating defects improves costs and leads to better customer experience.

We believe our ability to lower prices and simultaneously drive customer experience is a big deal, and this past year offers evidence that the strategy is working.

First, we do continue to drive customer experience. The holiday season this year is one example. While delivering a record number of units to customers, we also delivered our best-ever experience. Cycle time, the amount of time taken by our fulfillment centers to process an order, improved 17% compared with last year. And our most sensitive measure of customer satisfaction, contacts per order, saw a 13% improvement.

Inside existing product categories, we've worked hard to increase selection. Electronics selection is up over 40% in the U.S. alone over the prior year, and we now offer 10 times the selection of a typical big box electronics store. Even in U.S. books, where we've been working for 8 years, we increased selection by 15%, mostly in harder-to-find and out-of-print titles. And, of course, we've added new categories. Our Apparel and Accessories store has more than 500 top clothing brands, and in its first 60 days, customers bought 153,000 shirts, 106,000 pairs of pants, and 31,000 pairs of underwear.

In this year's American Customer Satisfaction Index, the most authoritative study of customer satisfaction, Amazon.com scored an 88, the highest score ever recorded—not just online, not just in retailing—but the highest score ever recorded in any service industry. In ACSI's words:

“Amazon.com continues to show remarkably high levels of customer satisfaction. With a score of 88 (up 5%), it is generating satisfaction at a level unheard of in the service industry.... Can customer satisfaction for Amazon climb more? The latest ACSI data suggest that it is indeed possible. Both service and the value proposition offered by Amazon have increased at a steep rate.”

Second, while focused on customer experience, we've also been lowering price substantially. We've been doing so broadly across product categories, from books to electronics, and we've eliminated shipping fees with our 365 day-per-year Free Super Saver Shipping on orders over \$25. We've been taking similar actions in every country in which we do business.

Our pricing objective is not to discount a small number of products for a limited period of time, but to offer low prices everyday and apply them broadly across our entire product range. To illustrate this point, we recently did a price comparison versus a major well-known chain of book superstores. We did not hand pick a choice group of books against which we wanted to compare. Instead, we used their published list of their 100 bestsellers for 2002. It was a good representation of the kinds of books people buy most, consisting of 45 hardcover titles and 55 paperbacks across many different categories, including Literature, Romance, Mystery and Thrillers, Nonfiction, Children's, Self-Help, and so on.

We priced all 100 titles by visiting their superstores in both Seattle and New York City. It took us six hours in four of their different superstores to find all 100 books on their list. When we added up everything we spent, we discovered that:

- At their stores, these 100 bestselling books cost \$1,561. At Amazon.com, the same books cost \$1,195 for a total savings of \$366, or 23%.
- For 72 of the 100 books, our price was cheaper. On 25 of the books, our price was the same. On 3 of the 100, their prices were better (we subsequently reduced our prices on these three books).
- In these physical-world superstores, only 15 of their 100 titles were discounted—they were selling the other 85 at full list price. At Amazon.com, 76 of the 100 were discounted and 24 were sold at list price.

To be sure, you may find reasons to shop in the physical world—for instance, if you need something immediately—but, if you do so, you'll be paying a premium. If you want to save money and time, you'll do better by shopping at Amazon.com.

Third, our determination to deliver low price *and* customer experience is generating financial results. Net sales this year increased 26% to a record \$3.9 billion, and unit sales

grew at an even faster 34%. Free cash flow—our most important financial measure—reached \$135 million, a \$305 million improvement over the prior year.<sup>1</sup>

In short, what's good for customers is good for shareholders.

Once again this year, I attach a copy of our original 1997 letter and encourage current and prospective shareowners to take a look at it. Given how much we've grown and how much the Internet has evolved, it's notable that the fundamentals of how we do business remain the same.

As always, we at Amazon.com are grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

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<sup>1</sup> Free cash flow for 2002 of \$135 million is net cash provided by operating activities of \$174 million less purchases of fixed assets of \$39 million. Free cash flow for 2001 of negative \$170 million is net cash used in operating activities of \$120 million less purchases of fixed assets of \$50 million.

**1997 Letter reprint  
available on pages  
1 and 68**





To our shareholders:

Long-term thinking is both a requirement and an outcome of true ownership. Owners are different from tenants. I know of a couple who rented out their house, and the family who moved in nailed their Christmas tree to the hardwood floors instead of using a tree stand. Expedient, I suppose, and admittedly these were particularly bad tenants, but no owner would be so short-sighted. Similarly, many investors are effectively short-term tenants, turning their portfolios so quickly they are really just renting the stocks that they temporarily “own.”

We emphasized our long-term views in our 1997 letter to shareholders, our first as a public company, because that approach really does drive making many concrete, non-abstract decisions. I’d like to discuss a few of these non-abstract decisions in the context of customer experience. At Amazon.com, we use the term customer experience broadly. It includes every customer-facing aspect of our business—from our product prices to our selection, from our website’s user interface to how we package and ship items. The customer experience we create is by far the most important driver of our business.

As we design our customer experience, we do so with long-term owners in mind. We try to make all of our customer experience decisions—big and small—in that framework.

For instance, shortly after launching Amazon.com in 1995, we empowered customers to review products. While now a routine Amazon.com practice, at the time we received complaints from a few vendors, basically wondering if we understood our business: “You make money when you sell things—why would you allow negative reviews on your website?” Speaking as a focus group of one, I know I’ve sometimes changed my mind before making purchases on Amazon.com as a result of negative or lukewarm customer reviews. Though negative reviews cost us some sales in the short term, helping customers make better purchase decisions ultimately pays off for the company.

Another example is our Instant Order Update feature, which reminds you that you’ve already bought a particular item. Customers lead busy lives and cannot always remember if they’ve already purchased a particular item, say a DVD or CD they bought a year earlier. When we launched Instant Order Update, we were able to measure with statistical significance that the feature slightly reduced sales. Good for customers? Definitely. Good for shareowners? Yes, in the long run.

Among the most expensive customer experience improvements we’re focused on are our everyday free-shipping offers and our ongoing product price reductions. Eliminating defects, improving productivity, and passing the resulting cost savings back to customers in the form of lower prices is a long-term decision. Increased volumes take time to materialize, and price reductions almost always hurt current results. In the long term, however, relentlessly driving the “price-cost structure loop” will leave us with a stronger, more valuable business. Since many of our costs, such as software engineering, are relatively fixed and many of our variable costs can also be better managed at larger scale, driving more volume through our cost structure reduces those costs as a percentage of sales. To give one small example, engineering a feature like Instant Order Update for use by 40 million customers costs nowhere near 40 times what it would cost to do the same for 1 million customers.

Our pricing strategy does not attempt to maximize margin *percentages*, but instead seeks to drive maximum value for customers and thereby create a much larger bottom line—in the long term. For example, we’re targeting gross margins on our jewelry sales to be substantially lower than industry norms because we believe over time—customers figure these things out—this approach will produce more value for shareholders.

We have a strong team of hard-working, innovative folks building Amazon.com. They are focused on the customer and focused on the long term. On that time scale, the interests of shareowners and customers are aligned.

As always, I attach our 1997 letter and believe it is still worth a read. Here's to not being a tenant!



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

P.S. Again this year, the widely-followed American Customer Satisfaction Index gave Amazon.com a score of 88—the highest customer satisfaction score ever recorded in any service industry, online or off. A representative of the ACSI was quoted as saying, “If they go any higher, they will get a nose bleed.” We’re working on that.

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareholders:

Our ultimate financial measure, and the one we most want to drive over the long-term, is free cash flow per share.

Why not focus first and foremost, as many do, on earnings, earnings per share or earnings growth? The simple answer is that earnings don't directly translate into cash flows, and shares are worth only the present value of their future cash flows, not the present value of their future earnings. Future earnings are a component—but not the only important component—of future cash flow per share. Working capital and capital expenditures are also important, as is future share dilution.

Though some may find it counterintuitive, a company can actually impair shareholder value in certain circumstances by growing earnings. This happens when the capital investments required for growth exceed the present value of the cash flow derived from those investments.

To illustrate with a hypothetical and very simplified example, imagine that an entrepreneur invents a machine that can quickly transport people from one location to another. The machine is expensive—\$160 million with an annual capacity of 100,000 passenger trips and a four year useful life. Each trip sells for \$1,000 and requires \$450 in cost of goods for energy and materials and \$50 in labor and other costs.

Continue to imagine that business is booming, with 100,000 trips in Year 1, completely and perfectly utilizing the capacity of one machine. This leads to earnings of \$10 million after deducting operating expenses including depreciation—a 10% net margin. The company's primary focus is on earnings; so based on initial results the entrepreneur decides to invest more capital to fuel sales and earnings growth, adding additional machines in Years 2 through 4.

Here are the income statements for the first four years of business:

	Earnings			
	Year 1	Year 2	Year 3	Year 4
	(in thousands)			
Sales	\$100,000	\$200,000	\$400,000	\$800,000
Units sold	100	200	400	800
Growth	N/A	100%	100%	100%
Gross profit	55,000	110,000	220,000	440,000
Gross margin	55%	55%	55%	55%
Depreciation	40,000	80,000	160,000	320,000
Labor & other costs	5,000	10,000	20,000	40,000
Earnings	\$ 10,000	\$ 20,000	\$ 40,000	\$ 80,000
Margin	10%	10%	10%	10%
Growth	N/A	100%	100%	100%

It's impressive: 100% compound earnings growth and \$150 million of cumulative earnings. Investors considering only the above income statement would be delighted.

However, looking at cash flows tells a different story. Over the same four years, the transportation business generates cumulative negative free cash flow of \$530 million.

Cash Flows				
	Year 1	Year 2	Year 3	Year 4
	(in thousands)			
Earnings	\$ 10,000	\$ 20,000	\$ 40,000	\$ 80,000
Depreciation	40,000	80,000	160,000	320,000
Working capital	—	—	—	—
Operating Cash Flow	50,000	100,000	200,000	400,000
Capital expenditures	160,000	160,000	320,000	640,000
Free Cash Flow	\$(110,000)	\$(60,000)	\$(120,000)	\$(240,000)

There are of course other business models where earnings more closely approximate cash flows. But as our transportation example illustrates, one cannot assess the creation or destruction of shareholder value with certainty by looking at the income statement alone.

Notice, too, that a focus on EBITDA—Earnings Before Interest, Taxes, Depreciation and Amortization—would lead to the same faulty conclusion about the health of the business. Sequential annual EBITDA would have been \$50, \$100, \$200 and \$400 million—100% growth for three straight years. But without taking into account the \$1.28 billion in capital expenditures necessary to generate this ‘cash flow,’ we’re getting only part of the story—EBITDA isn’t cash flow.

What if we modified the growth rates and, correspondingly, capital expenditures for machinery—would cash flows have deteriorated or improved?

Year 2, 3 and 4 Sales and Earnings Growth Rate	Number of Machines in Year 4	Year 1 to 4 Cumulative Earnings	Year 1 to 4 Cumulative Free Cash Flow
		(in thousands)	
0%, 0%, 0%	1	\$ 40,000	\$ 40,000
100%, 50%, 33%	4	\$100,000	\$(140,000)
100%, 100%, 100%	8	\$150,000	\$(530,000)

Paradoxically, from a cash flow perspective, the slower this business grows the better off it is. Once the initial capital outlay has been made for the first machine, the ideal growth trajectory is to scale to 100% of capacity quickly, then stop growing. However, even with only one piece of machinery, the gross cumulative cash flow doesn’t surpass the initial machine cost until Year 4 and the net present value of this stream of cash flows (using 12% cost of capital) is still negative.

Unfortunately our transportation business is fundamentally flawed. There is no growth rate at which it makes sense to invest initial or subsequent capital to operate the business. In fact, our example is so simple and clear as to be obvious. Investors would run a net present value analysis on the economics and quickly determine it doesn’t pencil out. Though it’s more subtle and complex in the real world, this issue—the duality between earnings and cash flows—comes up all the time.

Cash flow statements often don’t receive as much attention as they deserve. Discerning investors don’t stop with the income statement.

*Our Most Important Financial Measure: Free Cash Flow Per Share*

Amazon.com’s financial focus is on long-term growth in free cash flow per share.

Amazon.com’s free cash flow is driven primarily by increasing operating profit dollars and efficiently managing both working capital and capital expenditures. We work to increase operating profit by focusing on improving all aspects of the customer experience to grow sales and by maintaining a lean cost structure.

We have a cash generative operating cycle<sup>1</sup> because we turn our inventory quickly, collecting payments from our customers before payments are due to suppliers. Our high inventory turnover means we maintain relatively low levels of investment in inventory—\$480 million at year end on a sales base of nearly \$7 billion.

The capital efficiency of our business model is illustrated by our modest investments in fixed assets, which were \$246 million at year end or 4% of 2004 sales.

Free cash flow<sup>2</sup> grew 38% to \$477 million in 2004, a \$131 million improvement over the prior year. We are confident that if we continue to improve customer experience—including increasing selection and lowering prices—and execute efficiently, our value proposition, as well as our free cash flow, will further expand.

As to dilution, total shares outstanding plus stock-based awards are essentially unchanged at the end of 2004 compared with 2003, and are down 1% over the last three years. During that same period, we've also eliminated over six million shares of potential future dilution by repaying more than \$600 million of convertible debt that was due in 2009 and 2010. Efficiently managing share count means more cash flow per share and more long-term value for owners.

This focus on free cash flow isn't new for Amazon.com. We made it clear in our 1997 letter to shareholders—our first as a public company—that when “forced to choose between optimizing GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.” I'm attaching a copy of our complete 1997 letter and encourage current and prospective shareowners to take a look at it.

As always, we at Amazon.com are grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement.



Jeffrey P. Bezos  
 Founder and Chief Executive Officer  
 Amazon.com, Inc.  
 April 2005

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- <sup>1</sup> The operating cycle is number of days of sales in inventory plus number of days of sales in accounts receivable minus accounts payable days.
- <sup>2</sup> Free cash flow is defined as net cash provided by operating activities less purchases of fixed assets, including capitalized internal-use software and website development, both of which are presented on our statements of cash flows. Free cash flow for 2004 of \$477 million is net cash provided by operating activities of \$567 million less purchases of fixed assets, including capitalized internal-use software and website development costs, of \$89 million. Free cash flow for 2003 of \$346 million is net cash provided by operating activities of \$392 million less purchases of fixed assets, including capitalized internal-use software and website development costs, of \$46 million.

**1997 Letter reprint  
 available on pages  
 1 and 68**



To our shareholders:

Many of the important decisions we make at Amazon.com can be made with data. There is a right answer or a wrong answer, a better answer or a worse answer, and math tells us which is which. These are our favorite kinds of decisions.

Opening a new fulfillment center is an example. We use history from our existing fulfillment network to estimate seasonal peaks and to model alternatives for new capacity. We look at anticipated product mix, including product dimensions and weight, to decide how much space we need and whether we need a facility for smaller “sortable” items or for larger items that usually ship alone. To shorten delivery times and reduce outbound transportation costs, we analyze prospective locations based on proximity to customers, transportation hubs, and existing facilities. Quantitative analysis improves the customer’s experience and our cost structure.

Similarly, most of our inventory purchase decisions can be numerically modeled and analyzed. We want products in stock and immediately available to customers, and we want minimal total inventory in order to keep associated holding costs, and thus prices, low. To achieve both, there is a right amount of inventory. We use historical purchase data to forecast customer demand for a product and expected variability in that demand. We use data on the historical performance of vendors to estimate replenishment times. We can determine where to stock the product within our fulfillment network based on inbound and outbound transportation costs, storage costs, and anticipated customer locations. With this approach, we keep over one million unique items under our own roof, immediately available for customers, while still turning inventory more than fourteen times per year.

The above decisions require us to make some assumptions and judgments, but in such decisions, judgment and opinion come into play only as junior partners. The heavy lifting is done by the math.

As you would expect, however, not all of our important decisions can be made in this enviable, math-based way. Sometimes we have little or no historical data to guide us and proactive experimentation is impossible, impractical, or tantamount to a decision to proceed. Though data, analysis, and math play a role, the prime ingredient in these decisions is judgment.<sup>1</sup>

As our shareholders know, we have made a decision to continuously and significantly lower prices for customers year after year as our efficiency and scale make it possible. This is an example of a very important decision that cannot be made in a math-based way. In fact, when we lower prices, we go against the math that we can do, which always says that the smart move is to *raise* prices. We have significant data related to price elasticity. With fair accuracy, we can predict that a price reduction of a certain percentage will result in an increase in units sold of a certain percentage. With rare exceptions, the volume increase in the short term is never enough to pay for the price decrease. However, our quantitative understanding of elasticity is short-term. We can estimate what a price reduction will do this week and this quarter. But we cannot numerically estimate the effect that consistently lowering prices will have on our business over five years or ten years or more. Our *judgment* is that relentlessly returning efficiency improvements and scale economies to customers in the form of lower prices

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<sup>1</sup> “The Structure of ‘Unstructured’ Decision Processes” is a fascinating 1976 paper by Henry Mintzberg, Duru Raisinghani, and Andre Theoret. They look at how institutions make strategic, “unstructured” decisions as opposed to more quantifiable “operating” decisions. Among other gems you will find in the paper is this: “Excessive attention by management scientists to operating decisions may well cause organizations to pursue inappropriate courses of action more efficiently.” They are not debating the importance of rigorous and quantitative analysis, but only noting that it gets a lopsided amount of study and attention, probably because of the very fact that it is more quantifiable. The whole paper is available at [www.amazon.com/ir/mintzberg](http://www.amazon.com/ir/mintzberg).

creates a virtuous cycle that leads over the long term to a much larger dollar amount of free cash flow, and thereby to a much more valuable Amazon.com. We've made similar judgments around Free Super Saver Shipping and Amazon Prime, both of which are expensive in the short term and—we believe—important and valuable in the long term.

As another example, in 2000 we invited third parties to compete directly against us on our “prime retail real estate”—our product detail pages. Launching a single detail page for both Amazon retail and third-party items seemed risky. Well-meaning people internally and externally worried it would cannibalize Amazon's retail business, and—as is often the case with consumer-focused innovations—there was no way to prove in advance that it would work. Our buyers pointed out that inviting third parties onto Amazon.com would make inventory forecasting more difficult and that we could get “stuck” with excess inventory if we “lost the detail page” to one of our third-party sellers. However, our judgment was simple. If a third party could offer a better price or better availability on a particular item, then we wanted our customer to get easy access to that offer. Over time, third-party sales have become a successful and significant part of our business. Third-party units have grown from 6% of total units sold in 2000 to 28% in 2005, even as retail revenues have grown three-fold.

Math-based decisions command wide agreement, whereas judgment-based decisions are rightly debated and often controversial, at least until put into practice and demonstrated. Any institution unwilling to endure controversy must limit itself to decisions of the first type. In our view, doing so would not only limit controversy—it would also significantly limit innovation and long-term value creation.

The foundation of our decision-making philosophy was laid out in our 1997 letter to shareholders, a copy of which is attached:

- We will continue to focus relentlessly on our customers.
- We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.
- We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.
- We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.

You can count on us to combine a strong quantitative and analytical culture with a willingness to make bold decisions. As we do so, we'll start with the customer and work backwards. In our judgment, that is the best way to create shareholder value.



Jeffrey P. Bezos  
Founder and Chief Executive Officer

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareholders:

At Amazon's current scale, planting seeds that will grow into meaningful new businesses takes some discipline, a bit of patience, and a nurturing culture.

Our established businesses are well-rooted young trees. They are growing, enjoy high returns on capital, and operate in very large market segments. These characteristics set a high bar for any new business we would start. Before we invest our shareholders' money in a new business, we must convince ourselves that the new opportunity can generate the returns on capital our investors expected when they invested in Amazon. And we must convince ourselves that the new business can grow to a scale where it can be significant in the context of our overall company.

Furthermore, we must believe that the opportunity is currently underserved and that we have the capabilities needed to bring strong customer-facing differentiation to the marketplace. Without that, it's unlikely we'd get to scale in that new business.

I often get asked, "When are you going to open physical stores?" That's an expansion opportunity we've resisted. It fails all but one of the tests outlined above. The potential size of a network of physical stores is exciting. However: we don't know how to do it with low capital and high returns; physical-world retailing is a caged and ancient business that's already well served; and we don't have any ideas for how to build a physical world store experience that's meaningfully differentiated for customers.

When you do see us enter new businesses, it's because we believe the above tests have been passed. Our acquisition of Joyo.com is a first step in serving the most populous country in the world. E-commerce in China is still in its early days, and we believe it's an excellent business opportunity. Shoes, apparel, groceries: these are big segments where we have the right skills to invent and grow large-scale, high-return businesses that genuinely improve customer experience.

Fulfillment by Amazon is a set of web services API's that turns our 12 million square foot fulfillment center network into a gigantic and sophisticated computer peripheral. Pay us 45 cents per month per cubic foot of fulfillment center space, and you can stow your products in our network. You make web services calls to alert us to expect inventory to arrive, to tell us to pick and pack one or more items, and to tell us where to ship those items. You never have to talk to us. It's differentiated, can be large, and passes our returns bar.

Amazon Web Services is another example. With AWS, we're building a new business focused on a new customer set ... software developers. We currently offer ten different web services and have built a community of over 240,000 registered developers. We're targeting broad needs universally faced by developers, such as storage and compute capacity—areas in which developers have asked for help, and in which we have deep expertise from scaling Amazon.com over the last twelve years. We're well positioned to do it, it's highly differentiated, and it can be a significant, financially attractive business over time.

In some large companies, it might be difficult to grow new businesses from tiny seeds because of the patience and nurturing required. In my view, Amazon's culture is unusually supportive of small businesses with big potential, and I believe that's a source of competitive advantage.

Like any company, we have a corporate culture formed not only by our intentions but also as a result of our history. For Amazon, that history is fairly fresh and, fortunately, it includes several examples of tiny seeds growing into big trees. We have many people at our company who have watched multiple \$10 million seeds turn into billion dollar businesses. That first-hand experience and the culture that has grown up around those



successes is, in my opinion, a big part of why we can start businesses from scratch. The culture demands that these new businesses be high potential and that they be innovative and differentiated, but it does not demand that they be large on the day that they are born.

I remember how excited we were in 1996 as we crossed \$10 million in book sales. It wasn't hard to be excited—we had grown to \$10 million from zero. Today, when a new business inside Amazon grows to \$10 million, the overall company is growing from \$10 billion to \$10.01 billion. It would be easy for the senior executives who run our established billion dollar businesses to scoff. But they don't. They watch the growth rates of the emerging businesses and send emails of congratulations. That's pretty cool, and we're proud it's a part of our culture.

In our experience, if a new business enjoys runaway success, it can only *begin* to be meaningful to the overall company economics in something like three to seven years. We've seen those time frames with our international businesses, our earlier non-media businesses, and our third party seller businesses. Today, international is 45% of sales, non-media is 34% of sales, and our third party seller businesses account for 28% of our units sold. We will be happy indeed if some of the new seeds we're planting enjoy similar successes.

We've come a distance since we celebrated our first \$10 million in sales. As we continue to grow, we'll work to maintain a culture that embraces new businesses. We will do so in a disciplined way, with an eye on returns, potential size, and the ability to create differentiation that customers care about. We won't always choose right, and we won't always succeed. But we will be choosy, and we will work hard and patiently.

As always, I attach our 1997 letter to shareholders. You'll see that our philosophy and approach have not changed. Many thanks for your support and encouragement.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareowners:

November 19, 2007, was a special day. After three years of work, we introduced Amazon Kindle to our customers.

Many of you may already know something of Kindle—we're fortunate (and grateful) that it has been broadly written and talked about. Briefly, Kindle is a purpose-built reading device with wireless access to more than 110,000 books, blogs, magazines, and newspapers. The wireless connectivity isn't WiFi—instead it uses the same wireless network as advanced cell phones, which means it works when you're at home in bed or out and moving around. You can buy a book directly from the device, and the whole book will be downloaded wirelessly, ready for reading, in less than 60 seconds. There is no "wireless plan," no year-long contract you must commit to, and no monthly service fee. It has a paper-like electronic-ink display that's easy to read even in bright daylight. Folks who see the display for the first time do a double-take. It's thinner and lighter than a paperback, and can hold 200 books. Take a look at the Kindle detail page on Amazon.com to see what customers think—Kindle has already been reviewed more than 2,000 times.

As you might expect after three years of work, we had sincere hopes that Kindle would be well received, but we did not expect the level of demand that actually materialized. We sold out in the first 5 ½ hours, and our supply chain and manufacturing teams have had to scramble to increase production capacity.

We started by setting ourselves the admittedly audacious goal of improving upon the physical book. We did not choose that goal lightly. Anything that has persisted in roughly the same form and resisted change for 500 years is unlikely to be improved easily. At the beginning of our design process, we identified what we believe is the book's most important feature. It *disappears*. When you read a book, you don't notice the paper and the ink and the glue and the stitching. All of that dissolves, and what remains is the author's world.

We knew Kindle would have to *get out of the way*, just like a physical book, so readers could become engrossed in the words and forget they're reading on a device. We also knew we shouldn't try to copy every last feature of a book—we could never out-book the book. We'd have to add *new* capabilities—ones that could never be possible with a traditional book.

The early days of Amazon.com provide an analog. It was tempting back then to believe that an online bookstore should have all the features of a physical bookstore. I was asked about a particular feature dozens of times: "How are you going to do electronic book signings?" Thirteen years later, we still haven't figured that one out! Instead of trying to duplicate physical bookstores, we've been inspired by them and worked to find things we could do in the new medium that could never be done in the old one. We don't have electronic book signings, and similarly we can't provide a comfortable spot to sip coffee and relax. However, we can offer literally *millions* of titles, help with purchase decisions through customer reviews, and provide discovery features like "customers who bought this item also bought." The list of useful things that can be done only in the new medium is a long one.

I'll highlight a few of the useful features we built into Kindle that go beyond what you could ever do with a physical book. If you come across a word you don't recognize, you can look it up easily. You can search your books. Your margin notes and underlinings are stored on the server-side in the "cloud," where they can't be lost. Kindle keeps your place in each of the books you're reading, automatically. If your eyes are tired, you can change the font size. Most important is the seamless, simple ability to find a book and have it in 60 seconds. When I've watched people do this for the first time, it's clear the capability has a profound effect on them. Our vision for Kindle is every book ever printed in any language, all available in less than 60 seconds.

Publishers—including all the major publishers—have embraced Kindle, and we're thankful for that. From a publisher's point of view, there are a lot of advantages to Kindle. Books never go out of print, and they never go out of stock. Nor is there ever waste from over-printing. Most important, Kindle makes it more convenient for readers to buy more books. Anytime you make something simpler and lower friction, you get more of it.

We humans co-evolve with our tools. We change our tools, and then our tools change us. Writing, invented thousands of years ago, is a grand whopper of a tool, and I have no doubt that it changed us dramatically. Five hundred years ago, Gutenberg's invention led to a significant step-change in the cost of books. Physical books ushered in a new way of collaborating and learning. Lately, networked tools such as desktop computers, laptops, cell phones and PDAs have changed us too. They've shifted us more toward *information snacking*, and I would argue toward shorter attention spans. I value my BlackBerry—I'm convinced it makes me more productive—but I don't want to read a three-hundred-page document on it. Nor do I want to read something hundreds of pages long on my desktop computer or my laptop. As I've already mentioned in this letter, people do more of what's convenient and friction-free. If our tools make information snacking easier, we'll shift more toward information snacking and away from long-form reading. Kindle is purpose-built for long-form reading. We hope Kindle and its successors may gradually and incrementally move us over years into a world with longer spans of attention, providing a counterbalance to the recent proliferation of info-snacking tools. I realize my tone here tends toward the missionary, and I can assure you it's heartfelt. It's also not unique to me but is shared by a large group of folks here. I'm glad about that because missionaries build better products. I'll also point out that, while I'm convinced books are on the verge of being improved upon, Amazon has no sinecure as that agent. It will happen, but if we don't execute well, it will be done by others.

Your team of missionaries here is fervent about driving free cash flow per share and returns on capital. We know we can do that by putting customers first. I guarantee you there is more innovation ahead of us than behind us, and we do not expect the road to be an easy one. We're hopeful, and I'd even say optimistic, that Kindle, true to its name, will "start a fire" and improve the world of reading.

As always, I attach our 1997 letter to shareholders. You'll see that Kindle exemplifies our philosophy and long-term investment approach as discussed in that letter. Happy reading and many thanks!



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

April 2008

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareowners:

In this turbulent global economy, our fundamental approach remains the same. Stay heads down, focused on the long term and obsessed over customers. Long-term thinking levers our existing abilities and lets us do new things we couldn't otherwise contemplate. It supports the failure and iteration required for invention, and it frees us to pioneer in unexplored spaces. Seek instant gratification – or the elusive promise of it – and chances are you'll find a crowd there ahead of you. Long-term orientation interacts well with customer obsession. If we can identify a customer need and if we can further develop conviction that that need is meaningful and durable, our approach permits us to work patiently for multiple years to deliver a solution. "Working backwards" from customer needs can be contrasted with a "skills-forward" approach where existing skills and competencies are used to drive business opportunities. The skills-forward approach says, "We are really good at X. What else can we do with X?" That's a useful and rewarding business approach. However, if used exclusively, the company employing it will never be driven to develop fresh skills. Eventually the existing skills will become outmoded. Working backwards from customer needs often *demand*s that we acquire new competencies and exercise new muscles, never mind how uncomfortable and awkward-feeling those first steps might be.

Kindle is a good example of our fundamental approach. More than four years ago, we began with a long-term vision: every book, ever printed, in any language, all available in less than 60 seconds. The customer experience we envisioned didn't allow for any hard lines of demarcation between Kindle the device and Kindle the service – the two had to blend together seamlessly. Amazon had never designed or built a hardware device, but rather than change the vision to accommodate our then-existing skills, we hired a number of talented (and missionary!) hardware engineers and got started learning a new institutional skill, one that we needed to better serve readers in the future.

We're grateful and excited that Kindle sales have exceeded our most optimistic expectations. On February 23, we began shipping Kindle 2. If you haven't seen it, Kindle 2 is everything customers loved about the original Kindle, only thinner, faster, with a crisper display, and longer battery life, and capable of holding 1,500 books. You can choose from more than 250,000 of the most popular books, magazines, and newspapers. Wireless delivery is free, and you'll have your book in less than 60 seconds. We've received thousands of feedback emails from customers about Kindle, and – remarkably – 26% of them contain the word "love."

#### *Customer Experience Pillars*

In our retail business, we have strong conviction that customers value low prices, vast selection, and fast, convenient delivery and that these needs will remain stable over time. It is difficult for us to imagine that ten years from now, customers will want higher prices, less selection, or slower delivery. Our belief in the durability of these pillars is what gives us the confidence required to invest in strengthening them. We know that the energy we put in now will continue to pay dividends well into the future.

Our pricing objective is to earn customer trust, not to optimize short-term profit dollars. We take it as an article of faith that pricing in this manner is the best way to grow our aggregate profit dollars over the long term. We may make less per item, but by consistently earning trust we will sell many more items. Therefore, we offer low prices across our entire product range. For the same reason, we continue to invest in our free shipping programs, including Amazon Prime. Customers are well-informed and smart, and they evaluate the total cost, including delivery charges, when making their purchasing decisions. In the last 12 months, customers worldwide have saved more than \$800 million by taking advantage of our free shipping offers.

We're relentlessly focused on adding selection, both by increasing selection inside existing categories and by adding new categories. We've added 28 new categories since 2007. One business that is rapidly growing and continues to surprise me is our shoe store, Endless.com, which we launched in 2007.

Fast, reliable delivery is important to customers. In 2005, we launched Amazon Prime. For \$79 per year,<sup>1</sup> Prime members get unlimited express two-day shipping for free and upgrades to one-day delivery for just \$3.99. In 2007, we launched Fulfillment by Amazon, a new service for third-party sellers. With FBA, sellers warehouse their inventory in our global fulfillment network, and we pick, pack, and ship to the end customer on the sellers' behalf. FBA items are eligible for Amazon Prime and Super Saver Shipping – just as if the items were Amazon-owned inventory. As a result, FBA both improves the customer experience and drives seller sales. In the fourth quarter of 2008, we shipped more than 3 million units on behalf of sellers who use Fulfillment by Amazon, a win-win for customers and sellers.

### *Prudent Spending*

The customer-experience path we've chosen requires us to have an efficient cost structure. The good news for shareowners is that we see much opportunity for improvement in that regard. Everywhere we look (and we all look), we find what experienced Japanese manufacturers would call “muda” or waste.<sup>2</sup> I find this incredibly energizing. I see it as potential – years and years of variable and fixed productivity gains and more efficient, higher velocity, more flexible capital expenditures.

Our primary financial goal remains maximizing long-term free cash flow and doing so with high rates of return on invested capital. We are investing heartily in Amazon Web Services, in tools for third-party sellers, in digital media, in China, and in new product categories. And we make these investments with the belief that they can be of meaningful scale and can clear our high bar for returns.

Around the world, amazing, inventive, and hard-working Amazonians are putting customers first. I take great pride in being part of this team. We thank you, our owners, for your support, for your encouragement, and for joining us on our continuing adventure.

As always, I attach our 1997 letter to shareowners. Even as the rate of change accelerates, we hope and believe our focus on what stays the same should serve us well.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

April 2009

**1997 Letter reprint  
available on pages  
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<sup>1</sup> Prime is a global program. ¥3,900 in Japan, £48 in the UK, €29 in Germany, and €49 in France.

<sup>2</sup> At a fulfillment center recently, one of our Kaizen experts asked me, “I’m in favor of a clean fulfillment center, but why are you cleaning? Why don’t you eliminate the source of dirt?” I felt like the Karate Kid.



To our shareowners:

The financial results for 2009 reflect the cumulative effect of 15 years of customer experience improvements: increasing selection, speeding delivery, reducing cost structure so we can afford to offer customers ever-lower prices, and many others. This work has been done by a large number of smart, relentless, customer-devoted people across all areas of the company. We are proud of our low prices, our reliable delivery, and our in-stock position on even obscure and hard-to-find items. We also know that we can still be much better, and we're dedicated to improving further.

Some notable highlights from 2009:

- Net sales increased 28% year-over-year to \$24.51 billion in 2009. This is 15 times higher than net sales 10 years ago when they were \$1.64 billion in 1999.
- Free cash flow increased 114% year-over-year to \$2.92 billion in 2009.
- More customers are taking advantage of Amazon Prime, with worldwide memberships up significantly over last year. The number of different items available for immediate shipment grew more than 50% in 2009.
- We added 21 new product categories around the world in 2009, including Automotive in Japan, Baby in France, and Shoes and Apparel in China.
- It was a busy year for our shoes business. In November we acquired Zappos, a leader in online apparel and footwear sales that strives to provide shoppers with the best possible service and selection. Zappos is a terrific addition to our Endless, Javari, Amazon, and Shopbop selection.
- The apparel team continued to enhance customer experience with the launch of our Denim Shop offering 100 brands, including Joe's Jeans, Lucky Brand, 7 For All Mankind, and Levi's.
- The shoes and apparel teams created over 121,000 product descriptions and uploaded over 2.2 million images to the website providing customers with a vivid shopping experience.
- Approximately 7 million customer reviews were added to websites worldwide.
- Sales of products by third party sellers on our websites represented 30% of unit sales in 2009. Active seller accounts increased 24% to 1.9 million for the year. Globally, sellers using Fulfillment By Amazon stowed more than one million unique items in our fulfillment center network, thereby making these items available for Free Super Saver Shipping and Amazon Prime.
- Amazon Web Services continued its rapid pace of innovation, launching many new services and features, including the Amazon Relational Database Service, Virtual Private Cloud, Elastic MapReduce, High-Memory EC2 Instances, Reserved and Spot Instances, Streaming for Amazon CloudFront, and Versioning for Amazon S3. AWS also continued to expand its global footprint to include additional services in the EU, a new Northern California Region and plans for a presence in the Asia-Pacific Region in 2010. The continued innovation and track record for operational performance helped AWS add more customers in 2009 than ever before, including many large enterprise customers.
- The U.S. Kindle Store now has more than 460,000 books, an increase from 250,000 last year, and includes 103 of the 110 New York Times Bestsellers, more than 8,900 blogs, and 171 top U.S. and International newspapers and magazines. We have shipped Kindles to more than 120 countries, and we now provide content in six different languages.

Senior leaders that are new to Amazon are often surprised by how little time we spend discussing actual financial results or debating projected financial outputs. To be clear, we take these financial outputs seriously, but we believe that focusing our energy on the controllable inputs to our business is the most effective way to maximize

financial outputs over time. Our annual goal setting process begins in the fall, and concludes early in the new year after we've completed our peak holiday quarter. Our goal setting sessions are lengthy, spirited, and detail-oriented. We have a high bar for the experience our customers deserve and a sense of urgency to improve that experience.

We've been using this same annual process for many years. For 2010, we have 452 detailed goals with owners, deliverables, and targeted completion dates. These are not the only goals our teams set for themselves, but they are the ones we feel are most important to monitor. None of these goals are easy and many will not be achieved without invention. We review the status of each of these goals several times per year among our senior leadership team and add, remove, and modify goals as we proceed.

A review of our current goals reveals some interesting statistics:

- 360 of the 452 goals will have a direct impact on customer experience.
- The word *revenue* is used eight times and *free cash flow* is used only four times.
- In the 452 goals, the terms *net income*, *gross profit* or *margin*, and *operating profit* are not used once.

Taken as a whole, the set of goals is indicative of our fundamental approach. Start with customers, and work backwards. Listen to customers, but don't *just* listen to customers – also invent on their behalf. We can't assure you that we'll meet all of this year's goals. We haven't in past years. However, we can assure you that we'll continue to obsess over customers. We have strong conviction that that approach – in the long term – is every bit as good for owners as it is for customers.

As always, I attach a copy of our original 1997 letter. Our approach remains the same, and it's still Day 1.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.  
April 2010

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareowners:

Random forests, naïve Bayesian estimators, RESTful services, gossip protocols, eventual consistency, data sharding, anti-entropy, Byzantine quorum, erasure coding, vector clocks ... walk into certain Amazon meetings, and you may momentarily think you've stumbled into a computer science lecture.

Look inside a current textbook on software architecture, and you'll find few patterns that we don't apply at Amazon. We use high-performance transactions systems, complex rendering and object caching, workflow and queuing systems, business intelligence and data analytics, machine learning and pattern recognition, neural networks and probabilistic decision making, and a wide variety of other techniques. And while many of our systems are based on the latest in computer science research, this often hasn't been sufficient: our architects and engineers have had to advance research in directions that no academic had yet taken. Many of the problems we face have no textbook solutions, and so we -- happily -- invent new approaches.

Our technologies are almost exclusively implemented as *services*: bits of logic that encapsulate the data they operate on and provide hardened interfaces as the only way to access their functionality. This approach reduces side effects and allows services to evolve at their own pace without impacting the other components of the overall system. Service-oriented architecture -- or SOA -- is the fundamental building abstraction for Amazon technologies. Thanks to a thoughtful and far-sighted team of engineers and architects, this approach was applied at Amazon long before SOA became a buzzword in the industry. Our e-commerce platform is composed of a federation of hundreds of software services that work in concert to deliver functionality ranging from recommendations to order fulfillment to inventory tracking. For example, to construct a product detail page for a customer visiting Amazon.com, our software calls on between 200 and 300 services to present a highly personalized experience for that customer.

State management is the heart of any system that needs to grow to very large size. Many years ago, Amazon's requirements reached a point where many of our systems could no longer be served by any commercial solution: our key data services store many petabytes of data and handle millions of requests per second. To meet these demanding and unusual requirements, we've developed several alternative, purpose-built persistence solutions, including our own key-value store and single table store. To do so, we've leaned heavily on the core principles from the distributed systems and database research communities and invented from there. The storage systems we've pioneered demonstrate extreme scalability while maintaining tight control over performance, availability, and cost. To achieve their ultra-scale properties these systems take a novel approach to data update management: by relaxing the synchronization requirements of updates that need to be disseminated to large numbers of replicas, these systems are able to survive under the harshest performance and availability conditions. These implementations are based on the concept of eventual consistency. The advances in data management developed by Amazon engineers have been the starting point for the architectures underneath the cloud storage and data management services offered by Amazon Web Services (AWS). For example, our Simple Storage Service, Elastic Block Store, and SimpleDB all derive their basic architecture from unique Amazon technologies.

Other areas of Amazon's business face similarly complex data processing and decision problems, such as product data ingestion and categorization, demand forecasting, inventory allocation, and fraud detection. Rule-based systems can be used successfully, but they can be hard to maintain and can become brittle over time. In many cases, advanced machine learning techniques provide more accurate classification and can self-heal to adapt to changing conditions. For example, our search engine employs data mining and machine learning algorithms that run in the background to build topic models, and we apply information extraction algorithms to identify attributes and extract entities from unstructured descriptions, allowing customers to narrow their searches and quickly find the desired product. We consider a large number of factors in search relevance to



predict the probability of a customer's interest and optimize the ranking of results. The diversity of products demands that we employ modern regression techniques like trained random forests of decision trees to flexibly incorporate thousands of product attributes at rank time. The end result of all this behind-the-scenes software? Fast, accurate search results that help you find what you want.

All the effort we put into technology might not matter that much if we kept technology off to the side in some sort of R&D department, but we don't take that approach. Technology infuses all of our teams, all of our processes, our decision-making, and our approach to innovation in each of our businesses. It is deeply integrated into everything we do.

One example is Whispersync, our Kindle service designed to ensure that everywhere you go, no matter what devices you have with you, you can access your reading library and all of your highlights, notes, and bookmarks, all in sync across your Kindle devices and mobile apps. The technical challenge is making this a reality for millions of Kindle owners, with hundreds of millions of books, and hundreds of device types, living in over 100 countries around the world—at 24x7 reliability. At the heart of Whispersync is an eventually consistent replicated data store, with application defined conflict resolution that must and can deal with device isolation lasting weeks or longer. As a Kindle customer, of course, we hide all this technology from you. So when you open your Kindle, it's in sync and on the right page. To paraphrase Arthur C. Clarke, like any sufficiently advanced technology, it's indistinguishable from magic.

Now, if the eyes of some shareowners dutifully reading this letter are by this point glazing over, I will awaken you by pointing out that, in my opinion, these techniques are not idly pursued – they lead directly to free cash flow.

We live in an era of extraordinary increases in available bandwidth, disk space, and processing power, all of which continue to get cheap fast. We have on our team some of the most sophisticated technologists in the world – helping to solve challenges that are right on the edge of what's possible today. As I've discussed many times before, we have unshakeable conviction that the long-term interests of shareowners are perfectly aligned with the interests of customers.

And we like it that way. Invention is in our DNA and technology is the fundamental tool we wield to evolve and improve every aspect of the experience we provide our customers. We still have a lot to learn, and I expect and hope we'll continue to have so much fun learning it. I take great pride in being part of this team.

As always, I attach a copy of our original 1997 letter. Our approach remains the same, and it's still Day 1.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

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1 and 68**



To our shareowners:

### The Power of Invention

“To us, the value of Amazon Web Services is undeniable – in twenty seconds, we can double our server capacity. In a high-growth environment like ours and with a small team of developers, it’s very important for us to trust that we have the best support to give to the music community around the world. Five years ago, we would have crashed and been down without knowing when we would be back. Now, because of Amazon’s continued innovation, we can provide the best technology and continue to grow.” That’s Christopher Tholen, the Chief Technology Officer of BandPage. His comments about how AWS helps with the critical need to scale compute capacity quickly and reliably are not hypothetical: BandPage now helps 500,000 bands and artists connect with tens of millions of fans.

“So, I started selling on Amazon in April of 2011, and by the time we became the top Amazon lunchbox seller in June, we had between 50 and 75 orders a day. When we hit August and September – our busiest time, with the start of the school year – we had 300, sometimes 500 orders a day. It was just phenomenal... I’m using Amazon to fulfill my orders, which makes my life easier. Plus, when my customers found out they could get free shipping with Prime subscriptions, the lunchboxes began selling like crazy.” Kelly Lester is the “mom entrepreneur” of EasyLunchboxes, her own innovative line of easy-to-pack, environmentally friendly lunchbox containers.

“I sort of stumbled onto it, and it opened a whole new world for me. Since I had over a thousand [book] titles at my house, I thought, ‘I’ll give this a try.’ I sold some and I kept expanding it and expanding it, and come to find out this was so much fun I decided I don’t ever want to get another job again. And I’ve got no boss – other than my wife, that is. What could be better than that? We actually work together on this. We both go out hunting, so it’s a team effort that’s worked out very well. We sell about 700 books a month. We ship between 800 and 900 to Amazon each month and Amazon ships out the 700 that people buy. Without Amazon handling shipping and customer service, my wife and I would have to be running to the post office or someplace every day with dozens of packages. With that part taken care of for us, life is much simpler... This is a terrific program and I love it. After all, Amazon supplies the customers and even ships the books. I mean, how can it get better than that?” Bob Frank founded RJF Books and More after getting laid off in the midst of the economic downturn. He and his wife split their time between Phoenix and Minneapolis, and he describes finding the books he sells like “a treasure hunt every day.”

“Because of Kindle Direct Publishing, I earn more royalties in one month than I ever did in a year of writing for a traditional house. I have gone from worrying about if I will be able to pay the bills – and there were many months when I couldn’t – to finally having real savings, even thinking about a vacation; something I haven’t done in years... Amazon has allowed me to really spread my wings. Prior, I was boxed into a genre, yet I had all of these other books I wanted to write. Now I can do just that. I manage my career. I feel as if I finally have a partner in Amazon. They understand this business and have changed the face of publishing for the good of the writer and the reader, putting choices back into our hands.” That’s A. K. Alexander, author of *Daddy’s Home*, one of the top 100 best-selling Kindle books in March.

“I had no idea that March of 2010, the first month I decided to publish on KDP, would be a defining moment in my life. Within a year of doing so, I was making enough on a monthly basis to quit my day job and focus on writing full time! The rewards that have sprung out of deciding to publish through KDP have been nothing short of life changing. Financially. Personally. Emotionally. Creatively. The ability to write full time, to be home with my family, and to write exactly what I want without the input of a legacy publisher marketing committee wanting to have a say in every detail of my writing, has made me a stronger writer, a more prolific writer, and most importantly a far happier one.... Amazon and KDP are literally enabling creativity in the

publishing world and giving writers like me a shot at their dream, and for that I am forever grateful.” That’s Blake Crouch, author of several thrillers, including the Kindle best seller *Run*.

“Amazon has made it possible for authors like me to get their work in front of readers and has changed my life. In a little over a year, I have sold nearly 250,000 books through the Kindle and have traded in old dreams for bigger and better ones. Four of my books have hit the Top 100 Kindle Best Sellers List. Also, I have been approached by agents, foreign sales people, and two movie producers, and have received mentions in the LA Times, Wall Street Journal, and PC Magazine, and was recently interviewed by USA Today. Mostly, I am excited that all writers now have the opportunity to get their work in front of readers without jumping through insurmountable hoops. Writers have more options and readers have more choices. The publishing world is changing fast, and I plan to enjoy every minute of the ride.” Theresa Ragan is the KDP author of multiple Kindle best sellers including *Abducted*.

“Past age 60 and in the midst of the recession, my wife and I found our income options severely limited. KDP was my one shot at a lifelong dream – our only chance at financial salvation. Within months of publishing, KDP has completely changed our lives, enabling this aging nonfiction writer to launch a brand-new career as a best-selling novelist. I can’t say enough on behalf of Amazon and the many tools that they make available to independent authors. Without reservation, I urge fellow writers to investigate and seize the opportunities that KDP offers. As I’ve happily discovered, there is zero downside risk – and the potential is virtually unlimited.” Robert Bidinotto is the author of the Kindle best seller *Hunter: A Thriller*.

“I leveraged KDP’s technology to blow through all the traditional gatekeepers. Can you imagine how that feels, after struggling so hard, for so long, for every ... single ... reader? Now, inspirational fiction lovers I never would have reached are enjoying *Nobody* and my other two novels from the Kindle Store at \$2.99. I’ve always wanted to write a Cinderella story. Now I have. And, thanks to Prince Charming (KDP), there will be more to come...” Creston Mapes is the author of the Kindle best seller *Nobody*.

Invention comes in many forms and at many scales. The most radical and transformative of inventions are often those that empower *others* to unleash *their* creativity – to pursue *their* dreams. That’s a big part of what’s going on with Amazon Web Services, Fulfillment by Amazon, and Kindle Direct Publishing. With AWS, FBA, and KDP, we are creating powerful self-service platforms that allow thousands of people to boldly experiment and accomplish things that would otherwise be impossible or impractical. These innovative, large-scale platforms are not zero-sum – they create win-win situations and create significant value for developers, entrepreneurs, customers, authors, and readers.

Amazon Web Services has grown to have thirty different services and thousands of large and small businesses and individual developers as customers. One of the first AWS offerings, the Simple Storage Service, or S3, now holds over 900 billion data objects, with more than a billion new objects being added every day. S3 routinely handles more than 500,000 transactions per second and has peaked at close to a million transactions per second. All AWS services are pay-as-you-go and radically transform capital expense into a variable cost. AWS is self-service: you don’t need to negotiate a contract or engage with a salesperson – you can just read the online documentation and get started. AWS services are elastic – they easily scale up and easily scale down.

In just the last quarter of 2011, Fulfillment by Amazon shipped tens of millions of items on behalf of sellers. When sellers use FBA, their items become eligible for Amazon Prime, for Super Saver Shipping, and for Amazon returns processing and customer service. FBA is self-service and comes with an easy-to-use inventory management console as part of Amazon Seller Central. For the more technically inclined, it also comes with a set of APIs so that you can use our global fulfillment center network like a giant computer peripheral.

I am emphasizing the self-service nature of these platforms because it’s important for a reason I think is somewhat non-obvious: even well-meaning gatekeepers slow innovation. When a platform is self-service, even the improbable ideas can get tried, because there’s no expert gatekeeper ready to say “that will never work!” And guess what – many of those improbable ideas do work, and society is the beneficiary of that diversity.

Kindle Direct Publishing has quickly taken on an astonishing scale – more than a thousand KDP authors now each sell more than a thousand copies a month, some have already reached hundreds of thousands of sales, and two have already joined the Kindle Million Club. KDP is a big win for authors. Authors who use KDP get to keep their copyrights, keep their derivative rights, get to publish on their schedule – a typical delay in traditional publishing can be a year or more from the time the book is finished – and ... saving the best for last ... KDP authors can get paid royalties of 70%. The largest traditional publishers pay royalties of only 17.5% on ebooks (they pay 25% of 70% of the selling price which works out to be 17.5% of the selling price). The KDP royalty structure is completely transformative for authors. A typical selling price for a KDP book is a reader-friendly \$2.99 – authors get approximately \$2 of that! With the legacy royalty of 17.5%, the selling price would have to be \$11.43 to yield the same \$2 per unit royalty. I assure you that authors sell many, many more copies at \$2.99 than they would at \$11.43.

Kindle Direct Publishing is good for readers because they get lower prices, but perhaps just as important, readers also get access to more diversity since authors that might have been rejected by establishment publishing channels now get their chance in the marketplace. You can get a pretty good window into this. Take a look at the Kindle best-seller list, and compare it to the New York Times best-seller list – which is more diverse? The Kindle list is chock-full of books from small presses and self-published authors, while the New York Times list is dominated by successful and established authors.

Amazonians are leaning into the future, with radical and transformational innovations that create value for thousands of authors, entrepreneurs, and developers. Invention has become second nature at Amazon, and in my view the team's pace of innovation is even accelerating – I can assure you it's very energizing. I'm extremely proud of the whole team, and feel lucky to have a front row seat.

As always, I attach a copy of our original 1997 letter. Our approach remains the same, and it's still Day 1!



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareowners:

As regular readers of this letter will know, our energy at Amazon comes from the desire to impress customers rather than the zeal to best competitors. We don't take a view on which of these approaches is more likely to maximize business success. There are pros and cons to both and many examples of highly successful competitor-focused companies. We do work to pay attention to competitors and be inspired by them, but it is a fact that the customer-centric way is at this point a defining element of our culture.

One advantage – perhaps a somewhat subtle one – of a customer-driven focus is that it aids a certain type of proactivity. When we're at our best, we don't wait for external pressures. We are *internally* driven to improve our services, adding benefits and features, before we have to. We lower prices and increase value for customers before we have to. We invent before we have to. These investments are motivated by customer focus rather than by reaction to competition. We think this approach earns more trust with customers and drives rapid improvements in customer experience – importantly – even in those areas where we are already the leader.

“Thank you. Every time I see that white paper on the front page of Amazon, I know that I'm about to get more for my money than I thought I would. I signed up for Prime for the shipping, yet now I get movies, and TV and books. You keep adding more, but not charging more. So thanks again for the additions.” We now have more than 15 million items in Prime, up 15x since we launched in 2005. Prime Instant Video selection tripled in just over a year to more than 38,000 movies and TV episodes. The Kindle Owners' Lending Library has also more than tripled to over 300,000 books, including an investment of millions of dollars to make the entire *Harry Potter* series available as part of that selection. We didn't “have to” make these improvements in Prime. We did so proactively. A related investment – a major, multi-year one – is Fulfillment by Amazon. FBA gives third-party sellers the option of warehousing their inventory alongside ours in our fulfillment center network. It has been a game changer for our seller customers because their items become eligible for Prime benefits, which drives their sales, while at the same time benefitting consumers with additional Prime selection.

We build automated systems that look for occasions when we've provided a customer experience that isn't up to our standards, and those systems then proactively refund customers. One industry observer recently received an automated email from us that said, “We noticed that you experienced poor video playback while watching the following rental on Amazon Video On Demand: Casablanca. We're sorry for the inconvenience and have issued you a refund for the following amount: \$2.99. We hope to see you again soon.” Surprised by the proactive refund, he ended up writing about the experience: “Amazon ‘noticed that I experienced poor video playback...’ And they decided to give me a refund because of that? Wow...Talk about putting customers first.”

When you pre-order something from Amazon, we guarantee you the lowest price offered by us between your order time and the end of the day of the release date. “I just received notice of a \$5 refund to my credit card for pre-order price protection. . . What a great way to do business! Thank you very much for your fair and honest dealings.” Most customers are too busy themselves to monitor the price of an item after they pre-order it, and our policy could be to require the customer to contact us and ask for the refund. Doing it proactively is more expensive for us, but it also surprises, delights, and earns trust.

We also have authors as customers. Amazon Publishing has just announced it will start paying authors their royalties monthly, sixty days in arrears. The industry standard is twice a year, and that has been the standard for a long time. Yet when we interview authors as customers, infrequent payment is a major dissatisfier. Imagine how you'd like it if you were paid twice a year. There isn't competitive pressure to pay authors more than once every six months, but we're proactively doing so. By the way – though the research was taxing, I struggled through and am happy to report that I recently saw many Kindles in use at a Florida beach. There are five generations of Kindle, and I believe I saw every generation in use except for the first. Our business approach is to sell premium

hardware at roughly breakeven prices. We want to make money when people use our devices – not when people buy our devices. We think this aligns us better with customers. For example, we don't need our customers to be on the upgrade treadmill. We can be very happy to see people still using four-year-old Kindles!

I can keep going – Kindle Fire's FreeTime, our customer service Andon Cord, Amazon MP3's AutoRip – but will finish up with a very clear example of internally driven motivation: Amazon Web Services. In 2012, AWS announced 159 new features and services. We've reduced AWS prices 27 times since launching 7 years ago, added enterprise service support enhancements, and created innovative tools to help customers be more efficient. AWS Trusted Advisor monitors customer configurations, compares them to known best practices, and then notifies customers where opportunities exist to improve performance, enhance security, or save money. Yes, we are actively telling customers they're paying us more than they need to. In the last 90 days, customers have saved millions of dollars through Trusted Advisor, and the service is only getting started. All of this progress comes in the context of AWS being the widely recognized leader in its area – a situation where you might worry that external motivation could fail. On the other hand, internal motivation – the drive to get the customer to say “Wow” – keeps the pace of innovation fast.

Our heavy investments in Prime, AWS, Kindle, digital media, and customer experience in general strike some as too generous, shareholder indifferent, or even at odds with being a for-profit company. “Amazon, as far as I can tell, is a charitable organization being run by elements of the investment community for the benefit of consumers,” writes one outside observer. But I don't think so. To me, trying to dole out improvements in a just-in-time fashion would be too clever by half. It would be risky in a world as fast-moving as the one we all live in. More fundamentally, I think long-term thinking squares the circle. Proactively delighting customers earns trust, which earns more business from those customers, even in new business arenas. Take a long-term view, and the interests of customers and shareholders align.

As I write this, our recent stock performance has been positive, but we constantly remind ourselves of an important point – as I frequently quote famed investor Benjamin Graham in our employee all-hands meetings – “In the short run, the market is a voting machine but in the long run, it is a weighing machine.” We don't celebrate a 10% increase in the stock price like we celebrate excellent customer experience. We aren't 10% smarter when that happens and conversely aren't 10% dumber when the stock goes the other way. We want to be weighed, and we're always working to build a heavier company.

As proud as I am of our progress and our inventions, I know that we will make mistakes along the way – some will be self-inflicted, some will be served up by smart and hard-working competitors. Our passion for pioneering will drive us to explore narrow passages, and, unavoidably, many will turn out to be blind alleys. But – with a bit of good fortune – there will also be a few that open up into broad avenues.

I am incredibly lucky to be a part of this large team of outstanding missionaries who value our customers as much as I do and who demonstrate that every day with their hard work. As always, I attach a copy of our original 1997 letter. Our approach remains the same, and it's still Day 1.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.  
April 2013

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareowners:

I'm so proud of what all the teams here at Amazon have accomplished on behalf of customers this past year. Amazonians around the world are polishing products and services to a degree that is beyond what's expected or required, taking the long view, reinventing normal, and getting customers to say "Wow."

I'd like to take you on a tour that samples a small subset of our various initiatives, ranging from Prime to Amazon Smile to Mayday. The goal is to give you a sense for how much is going on across Amazon and how exciting it is to work on these programs. This broad array of initiatives is only possible because a large team of talented people at every level are exercising their good judgment every day and always asking, how do we make this better?

Ok, let's get started on the tour.

### *Prime*

Customers love Prime. More than one million customers joined Prime in the third week of December alone, and there are now tens of millions of Prime members worldwide. On a per customer basis, Prime members are ordering more items, across more categories, than ever before. Even internally, it's easy for us to forget that Prime was a new, unproven (some even said foolhardy) concept when we launched it nine years ago: all-you-can-eat, two-day shipping for a flat annual fee. At that time, we had one million eligible Prime products. This year, we passed 20 million eligible products, and we continue to add more. We've made Prime better in other ways too, adding new digital benefits – including the Kindle Owners' Lending Library and Prime Instant Video. And we're not done. We have many ideas for how to make Prime even better.

### *Readers & Authors*

We're investing heavily on behalf of readers. The all-new, high-resolution, high-contrast Kindle Paperwhite launched to rave reviews. We integrated the very impressive Goodreads into Kindle, introduced FreeTime for Kindle, and launched Kindle in India, Mexico, and Australia. Bringing joy to air travelers, the FAA approved the use of electronic devices during takeoff and landing. Our public policy team, with the help of many allies, worked patiently for four years on this, at one point loading a test plane with 150 active Kindles. Yes, it all worked fine!

Joining CreateSpace, Kindle Singles, and Kindle Direct Publishing, is the new service Kindle Worlds, the literary journal Day One, eight new Amazon Publishing imprints, and the launch of Amazon Publishing in the UK and Germany. Thousands of authors are already using these services to build fulfilling writing careers. Many write and tell us how we have helped them send their children to college, pay off medical bills, or purchase a home. We are missionaries for reading and these stories inspire and encourage us to keep inventing on behalf of writers and readers.

### *Prime Instant Video*

Prime Instant Video is experiencing tremendous growth across all metrics – including new customers, repeat usage, and total number of streams. These are output metrics and they suggest we are on a good path, focusing on the right inputs. Two of the key inputs are the growth of selection and the desirability of that selection. Since we launched PIV in 2011 with 5,000 titles, we've grown selection to more than 40,000 movies and TV episodes – all included in your Prime membership. PIV has exclusives on hundreds of sought after TV seasons including *Downton Abbey*, the ratings blockbuster *Under the Dome*, *The Americans*, *Justified*, *Grimm*, *Orphan Black*, *Suits*, and kids programs such as *SpongeBob SquarePants*, *Dora the Explorer*, and *Blue's Clues*. In addition, our Amazon Studios team continues to invest heavily in original content. Garry Trudeau's *Alpha House*, starring John Goodman, debuted last year and quickly became the most-watched show on Amazon. We

recently greenlit six more originals, including *Bosch*, by Michael Connelly, *The After*, from Chris Carter of *The X-Files*, *Mozart in the Jungle*, from Roman Coppola and Jason Schwartzman, and Jill Soloway's beautiful *Transparent*, which some have called the best pilot in years. We like our approach and are replicating it with our recent rollout of PIV in both the UK and Germany. The early customer response in those countries has been terrific, surpassing our expectations.

#### *Fire TV*

Just this past week, after two years of hard work, our hardware team launched Fire TV. Not only is Fire TV the best way to watch Amazon's video offerings, it also embraces non-Amazon content services like Netflix, Hulu Plus, VEVO, WatchESPN, and many more. Fire TV has big hardware specs in a category that's previously been hardware-light. It shows. Fire TV is fast and fluid. And our ASAP technology predicts what you might want to watch and pre-buffers it, so shows start instantly. Our team also put a small microphone in the remote control. Hold down the mic button on the remote, and you can speak your search term rather than type it into an alphabet grid. The team has done a terrific job – the voice search actually works.

In addition to Prime Instant Video, Fire TV gives you instant access to over 200,000 movies and TV episodes available a la carte, including new releases like *Gravity*, *12 Years a Slave*, *Dallas Buyers Club*, *Frozen*, and more. As a bonus, Fire TV also lets you play high-quality, inexpensive games on your living room TV. We hope you try it out. If you do, let us know what you think. The team would love to hear your feedback.

#### *Amazon Game Studios*

*It's early in the twenty-second century and Earth is threatened by an alien species, the Ne'ahtu. The aliens infected Earth's energy grid with a computer virus to disable the planet's defenses. Before they could strike, computer science prodigy Amy Ramanujan neutralized the alien virus and saved the planet. Now, the Ne'ahtu are back and Dr. Ramanujan must prevent them from launching an all-out invasion on Earth. She needs your help.*

That's how *Sev Zero*, the first Fire TV exclusive from Amazon Game Studios, begins. The team combined tower defense with shooter gameplay and created a co-op mode where one player leads on the ground with their gamepad controller while a second player provides air support from a tablet. I can assure you that there are some intense moments when you'll appreciate a well-timed air-strike. When you see it, you may be surprised that this level of game play is possible on an inexpensive streaming media device. *Sev Zero* is only the first of a collection of innovative and graphically beautiful games we're building from the ground up for Fire tablets and Fire TV.

#### *Amazon Appstore*

The Amazon Appstore now serves customers in almost 200 countries. Selection has grown to include over 200,000 apps and games from top developers around the globe – nearly tripling in size over the past year. We introduced Amazon Coins, a virtual currency that saves customers up to 10% on app and in-app purchases. Our Whispersync for Games technology lets you start a game on one device and continue it on another without losing your progress. Developers can use the Mobile Associates program to offer millions of physical products from Amazon inside their apps, and earn referral fees when customers buy those items. We introduced Appstore Developer Select, a marketing program that promotes new apps and games on Kindle Fire tablets and on Amazon's Mobile Ad Network. We created Analytics and A/B Testing services – free services that empower developers to track user engagement and optimize their apps for iOS, Android, and Fire OS. Also this year, we embraced HTML5 web app developers. They too can now offer their apps on Kindle Fire and through the Amazon Appstore.

#### *Spoken Word Audio*

2013 was a landmark year for Audible, the world's largest seller and producer of audiobooks. Audible makes it possible for you to read when your eyes are busy. Millions of customers download hundreds of millions of audiobooks and other spoken-word programming from Audible. Audible customers downloaded close to 600 million listening hours in 2013. Thanks to Audible Studios, people drive to work listening to Kate Winslet, Colin Firth, Anne Hathaway, and many other stars. One big hit in 2013 was Jake Gyllenhaal's performance of



*The Great Gatsby*, which has already sold 100,000 copies. Whispersync for Voice allows customers to switch seamlessly back and forth between reading a book on their Kindle and listening to the corresponding Audible book on their smart phone. The Wall Street Journal called Whispersync for Voice “Amazon’s new killer app for books.” If you haven’t already, I recommend you give it a try – it’s fun and expands the amount of time you have available to read.

### *Fresh Grocery*

After trialing the service for five years in Seattle (no one accuses us of a lack of patience), we expanded Amazon Fresh to Los Angeles and San Francisco. Prime Fresh members pay \$299 a year and receive same-day and early morning delivery not only on fresh grocery items but also on over 500,000 other items ranging from toys to electronics to household goods. We’re also partnering with favorite local merchants (the Cheese Store of Beverly Hills, Pike Place Fish Market, San Francisco Wine Trading Company, and many more) to provide the same convenient home delivery on a great selection of prepared foods and specialty items. We’ll continue our methodical approach – measuring and refining Amazon Fresh – with the goal of bringing this incredible service to more cities over time.

### *Amazon Web Services*

AWS is eight years old, and the team’s pace of innovation is actually accelerating. In 2010, we launched 61 significant services and features. In 2011, that number was 82. In 2012, it was 159. In 2013: 280. We’re also expanding our geographic footprint. We now have 10 AWS regions around the world, including the East Coast of the U.S., two on the West Coast, Europe, Singapore, Tokyo, Sydney, Brazil, China, and a government-only region called GovCloud. We have 26 availability zones across regions and 51 edge locations for our content distribution network. The development teams work directly with customers and are empowered to design, build, and launch based on what they learn. We iterate continuously, and when a feature or enhancement is ready, we push it out and make it instantly available to all. This approach is fast, customer-centric, and efficient – it’s allowed us to reduce prices more than 40 times in the past 8 years – and the teams have no plans to slow down.

### *Employee Empowerment*

We challenge ourselves to not only invent outward facing features, but also to find better ways to do things internally – things that will both make us more effective and benefit our thousands of employees around the world.

*Career Choice* is a program where we pre-pay 95% of tuition for our employees to take courses for in-demand fields, such as airplane mechanic or nursing, regardless of whether the skills are relevant to a career at Amazon. The goal is to enable choice. We know that for some of our fulfillment center employees, Amazon will be a career. For others, Amazon might be a stepping stone on the way to a job somewhere else – a job that may require new skills. If the right training can make the difference, we want to help.

The second program is called *Pay to Quit*. It was invented by the clever people at Zappos, and the Amazon fulfillment centers have been iterating on it. Pay to Quit is pretty simple. Once a year, we offer to pay our associates to quit. The first year the offer is made, it’s for \$2,000. Then it goes up one thousand dollars a year until it reaches \$5,000. The headline on the offer is “Please Don’t Take This Offer.” We hope they don’t take the offer; we want them to stay. Why do we make this offer? The goal is to encourage folks to take a moment and think about what they really want. In the long-run, an employee staying somewhere they don’t want to be isn’t healthy for the employee or the company.

A third inward innovation is our *Virtual Contact Center*. It’s an idea we started a few years back and have continued to grow with terrific results. Under this program, employees provide customer service support for Amazon and Kindle customers while working from home. This flexibility is ideal for many employees who, perhaps because they have young children or for another reason, either cannot or prefer not to work outside the home. Our Virtual Contact Center is our fastest growing “site” in the U.S., operating in more than ten states today. This growth will continue as we hope to double our state footprint in 2014.

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### *Veteran Hiring*

We seek leaders who can invent, think big, have a bias for action, and deliver results on behalf of customers. These principles look familiar to men and women who've served our country in the armed forces, and we find that their experience leading people is invaluable in our fast-paced work environment. We're a member of Joining Forces and the 100,000 Jobs Mission – two national efforts that encourage businesses to offer service members and their families career opportunities and support. Our Military Talent team attended more than 50 recruiting events last year to help veterans find job opportunities at Amazon. In 2013, we hired more than 1,900 veterans. And once veterans join our team, we offer several programs that help them transition more easily into the civilian workforce and that connect them with our internal network of veterans for mentoring and support. These programs have earned us recognition as a top employer by G.I. Jobs Magazine, U.S. Veterans Magazine, and Military Spouse Magazine, and we'll continue to invest in military veteran hiring as we grow.

### *Fulfillment Innovation*

Nineteen years ago, I drove the Amazon packages to the post office every evening in the back of my Chevy Blazer. My vision extended so far that I dreamed we might one day get a forklift. Fast-forward to today and we have 96 fulfillment centers and are on our 7th generation of fulfillment center design. Our operations team is extraordinary – methodical and ingenious. Through our Kaizen program, named for the Japanese term “change for the better,” employees work in small teams to streamline processes and reduce defects and waste. Our Earth Kaizens set energy reduction, recycling, and other green goals. In 2013, more than 4,700 associates participated in 1,100 Kaizens.

Sophisticated software is key in our FCs. This year, we rolled out 280 major software improvements across the FC network. Our goal is to continue to iterate and improve on the design, layout, technology, and operations in these buildings, ensuring that each new facility we build is better than the last. I invite you to come see one for yourself. We offer fulfillment center tours open to the public, ages six and above. You can find info on the available tours at [www.amazon.com/fctours](http://www.amazon.com/fctours). I'm always amazed when I visit one of our FCs, and I hope you'll arrange a tour. I think you'll be impressed.

### *Urban Campus*

In 2013, we added 420,000 square feet of new headquarters space in Seattle and broke ground on what will become four city blocks and several million square feet of new construction. It is a fact that we could have saved money by instead building in the suburbs, but for us, it was important to stay in the city. Urban campuses are much greener. Our employees are able to take advantage of existing communities and public transit infrastructure, with less dependence on cars. We're investing in dedicated bike lanes to provide safe, pollution-free, easy access to our offices. Many of our employees can live nearby, skip the commute altogether, and walk to work. Though I can't prove it, I also believe an urban headquarters will help keep Amazon vibrant, attract the right talent, and be great for the health and wellbeing of our employees and the city of Seattle.

### *Fast Delivery*

In partnership with the United States Postal Service, we've begun for the first time to offer Sunday delivery to select cities. Sunday delivery is a win for Amazon customers, and we plan to roll it out to a large portion of the U.S. population throughout 2014. We've created our own fast, last-mile delivery networks in the UK where commercial carriers couldn't support our peak volumes. In India and China, where delivery infrastructure isn't yet mature, you can see Amazon bike couriers delivering packages throughout the major cities. And there is more invention to come. The Prime Air team is already flight testing our 5th and 6th generation aerial vehicles, and we are in the design phase on generations 7 and 8.

### *Experiments and More Experiments*

We have our own internal experimentation platform called “Weblab” that we use to evaluate improvements to our websites and products. In 2013, we ran 1,976 Weblabs worldwide, up from 1,092 in 2012, and 546 in 2011. One recent success is our new feature called “Ask an owner”. It was many years ago that we pioneered the

idea of online customer reviews – customers sharing their opinion on a product to help other customers make an informed purchase decision. “Ask” is in that same tradition. From a product page, customers can ask any question related to the product. *Is the product compatible with my TV/Stereo/PC? Is it easy to assemble? How long does the battery last?* We then route these questions to *owners* of the product. As is the case with reviews, customers are happy to share their knowledge to directly help other customers. Millions of questions have already been asked and answered.

### *Apparel and Shoes*

Amazon Fashion is booming. Premium brands are recognizing that they can use Amazon to reach fashion-conscious, high-demo customers, and customers are enjoying the selection, free returns, detailed photos, and video clips that let them see how clothes move and drape as the models walk and turn. We opened a new 40,000 square foot photo studio in Brooklyn and now shoot an average of 10,413 photos every day in the studio’s 28 bays. To celebrate the opening, we hosted a design contest with students from Pratt, Parsons, School of Visual Arts, and the Fashion Institute of Technology that was judged by a panel of industry leaders including Steven Kolb, Eva Chen, Derek Lam, Tracy Reese, and Steven Alan. Kudos to Parsons who took home the top prize.

### *Frustration-Free Packaging*

Our battle against annoying wire ties and plastic clamshells rages on. An initiative that began five years ago with a simple idea that you shouldn’t have to risk bodily injury opening your new electronics or toys, has now grown to over 200,000 products, all available in easy-to-open, recyclable packaging designed to alleviate “wrap rage” and help the planet by reducing packaging waste. We have over 2,000 manufacturers in our Frustration-Free Packaging program, including Fisher-Price, Mattel, Unilever, Belkin, Victorinox Swiss Army, Logitech, and many more. We’ve now shipped many millions of Frustration-Free items to 175 countries. We are also reducing waste for customers – eliminating 33 million pounds of excess packaging to date. This program is a perfect example of a missionary team staying heads-down focused on serving customers. Through hard work and perseverance, an idea that started with only 19 products is now available on hundreds of thousands and benefiting millions of customers.

### *Fulfillment by Amazon*

The number of sellers using Fulfillment by Amazon grew more than 65% last year. Growth like that at such large scale is unusual. FBA is unique in many ways. It’s not often you get to delight two customer sets with one program. With FBA, sellers can store their products in our fulfillment centers, and we pick, pack, ship, and provide customer service for these products. Sellers benefit from one of the most advanced fulfillment networks in the world, easily scaling their businesses to reach millions of customers. And not just any customers – Prime members. FBA products can be eligible for Prime free two-day shipping. Customers benefit from this additional selection – they get even more value out of their Prime membership. And, unsurprisingly, sellers see increased sales when they join FBA. In a 2013 survey, nearly three out of four FBA respondents reported that their unit sales increased on Amazon.com more than 20% after joining FBA. It’s a win-win.

*“FBA is the best employee I have ever had. ... One morning I woke up and realized FBA had shipped 50 units. As soon as I realized I could sell products while I sleep, it was a no-brainer.”*

– Thanny Schuck, Action Sports LLC

*“Starting out as an unknown brand, it was difficult to find retailers willing to stock our goods. No such barriers existed at Amazon. The beauty of Amazon is that someone can say, ‘I want to start a business,’ and they can go on Amazon and really start a business. You don’t have to get a lease on a building or even have any employees at first. You can just do it on your own. And that’s what I did.”*

– Wendell Morris, YogaRat

### *Login and Pay with Amazon*

For several years we’ve enabled Amazon customers to pay on other sites, such as Kickstarter, SmugMug, and Gogo Inflight, using the credit cards and shipping addresses already stored in their Amazon account. This

year, we expanded that capability so customers can also sign in using their Amazon account credentials, saving them the annoyance of needing to remember yet another account name and password. It's convenient for the customer and a business builder for the merchant. Cymax Stores, the online furniture retailer, has seen tremendous success with Login and Pay. It now accounts for 20% of their orders, tripling their new account registrations, and increasing purchase conversion 3.15% in the first three months. This example isn't unusual. We are seeing results like these with many partners, and the team is excited and encouraged. You should look for more in 2014.

#### *Amazon Smile*

In 2013 we launched Amazon Smile – a simple way for customers to support their favorite charitable organizations every time they shop. When you shop at smile.amazon.com, Amazon donates a portion of the purchase price to the charity of your choice. You'll find the same selection, prices, shipping options, and Prime eligibility on smile.amazon.com as you do on Amazon.com – you'll even find your same shopping cart and wish lists. In addition to the large, national charities you would expect, you can also designate your local children's hospital, your school's PTA, or practically any other cause you might like. There are almost a million charities to choose from. I hope you'll find your favorite on the list.

#### *The Mayday Button*

*“Not only is the device awesome but the Mayday feature is absolutely FANTASTIC!!!! The Kindle team has hit it out of the park with this one.”*

*“Just tried the mayday button on my hdx. 15 second response time...amazon has done it again. Thoroughly impressed.”*

Nothing gives us more pleasure at Amazon than “*reinventing normal*” – creating inventions that customers love and resetting their expectations for what normal should be. Mayday reimagines and revolutionizes the idea of on-device tech support. Tap the Mayday button, and an Amazon expert will appear on your Fire HDX and can co-pilot you through any feature by drawing on your screen, walking you through how to do something yourself, or doing it for you – whatever works best. Mayday is available 24x7, 365 days a year, and our response time goal is 15 seconds or less. We beat that goal – with an average response time of only 9 seconds on our busiest day, Christmas.

A few of the Maydays have been amusing. Mayday Tech Advisors have received 35 marriage proposals from customers. 475 customers have asked to talk to Amy, our Mayday television personality. 109 Maydays have been customers asking for assistance with ordering a pizza. By a slim margin, Pizza Hut wins customer preference over Domino's. There are 44 instances where the Mayday Tech Advisor has sung Happy Birthday to the customer. Mayday Tech Advisors have been serenaded by customers 648 times. And 3 customers have asked for a bedtime story. Pretty cool.

I hope that gives you some sense of the scope of our opportunity and initiatives, as well the inventive spirit and push for exceptional quality with which they're undertaken. I should underscore again that this is a subset. There are many programs I've omitted in this letter that are just as promising, consequential, and interesting as those I've highlighted.

We have the good fortune of a large, inventive team and a patient, pioneering, customer-obsessed culture – great innovations, large and small, are happening everyday on behalf of customers, and at all levels throughout the company. This decentralized distribution of invention throughout the company – not limited to the company's senior leaders – is the only way to get robust, high-throughput innovation. What we're doing is challenging and fun – we get to work in the future.

Failure comes part and parcel with invention. It's not optional. We understand that and believe in failing early and iterating until we get it right. When this process works, it means our failures are relatively small in size

(most experiments can start small), and when we hit on something that is really working for customers, we double-down on it with hopes to turn it into an even bigger success. However, it's not always as clean as that. Inventing is messy, and over time, it's certain that we'll fail at some big bets too.

I'd like to close by remembering Joy Covey. Joy was Amazon's CFO in the early days, and she left an indelible mark on the company. Joy was brilliant, intense, and so fun. She smiled a lot and her eyes were always wide, missing nothing. She was substance over optics. She was a long-term thinker. She had a deep keel. Joy was bold. She had a profound impact on all of us on the senior team and on the company's entire culture. Part of her will always be here, making sure we watch the details, see the world around us, and all have fun.

I feel super lucky to be a part of the Amazon team. As always, I attach a copy of our original 1997 letter. Our approach remains the same, and it's still Day 1.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.  
April 2014

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareowners:

A dreamy business offering has at least four characteristics. Customers love it, it can grow to very large size, it has strong returns on capital, and it's durable in time – with the potential to endure for decades. When you find one of these, don't just swipe right, get married.

Well, I'm pleased to report that Amazon hasn't been monogamous in this regard. After two decades of risk taking and teamwork, and with generous helpings of good fortune all along the way, we are now happily wed to what I believe are three such life partners: Marketplace, Prime, and AWS. Each of these offerings was a bold bet at first, and sensible people worried (often!) that they could not work. But at this point, it's become pretty clear how special they are and how lucky we are to have them. It's also clear that there are no sinecures in business. We know it's our job to always nourish and fortify them.

We'll approach the job with our usual tools: customer obsession rather than competitor focus, heartfelt passion for invention, commitment to operational excellence, and a willingness to think long-term. With good execution and a bit of continuing good luck, Marketplace, Prime, and AWS can be serving customers and earning financial returns for many years to come.

## **Marketplace**

Marketplace's early days were not easy. First, we launched Amazon Auctions. I think seven people came, if you count my parents and siblings. Auctions transformed into zShops, which was basically a fixed price version of Auctions. Again, no customers. But then we morphed zShops into Marketplace. Internally, Marketplace was known as SDP for Single Detail Page. The idea was to take our most valuable retail real estate – our product detail pages – and let third-party sellers compete against our own retail category managers. It was more convenient for customers, and within a year, it accounted for 5% of units. Today, more than 40% of our units are sold by more than two million third-party sellers worldwide. Customers ordered more than two billion units from sellers in 2014.

The success of this hybrid model accelerated the Amazon flywheel. Customers were initially drawn by our fast-growing selection of Amazon-sold products at great prices with a great customer experience. By then allowing third parties to offer products side-by-side, we became more attractive to customers, which drew even more sellers. This also added to our economies of scale, which we passed along by lowering prices and eliminating shipping fees for qualifying orders. Having introduced these programs in the U.S., we rolled them out as quickly as we could to our other geographies. The result was a marketplace that became seamlessly integrated with all of our global websites.

We work hard to reduce the workload for sellers and increase the success of their businesses. Through our Selling Coach program, we generate a steady stream of automated machine-learned “nudges” (more than 70 million in a typical week) – alerting sellers about opportunities to avoid going out-of-stock, add selection that's selling, and sharpen their prices to be more competitive. These nudges translate to billions in increased sales to sellers.

To further globalize Marketplace, we're now helping sellers in each of our geographies – and in countries where we don't have a presence – reach out to our customers in countries outside their home geographies. We hosted merchants from more than 100 different countries last year, and helped them connect with customers in 185 nations.

Almost one-fifth of our overall third-party sales now occur outside the sellers' home countries, and our merchants' cross-border sales nearly doubled last year. In the EU, sellers can open a single account, manage their

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business in multiple languages, and make products available across our five EU websites. More recently, we've started consolidating cross-border shipments for sellers and helping them obtain ocean shipping from Asia to Europe and North America at preferential, bulk rates.

Marketplace is the heart of our fast-growing operations in India, since all of our selection in India is offered by third-party sellers. Amazon.in now offers more selection than any other e-commerce site in India – with more than 20 million products offered from over 21,000 sellers. With our Easy Ship service, we pick up products from a seller and handle delivery all the way to the end customer. Building upon Easy Ship, the India team recently piloted Kirana Now, a service that delivers everyday essentials from local kirana (mom and pop) stores to customers in two to four hours, adding convenience for our customers and increasing sales for the stores participating in the service.

Perhaps most important for sellers, we've created Fulfillment by Amazon. But I'll save that for after we discuss Prime.

### **Amazon Prime**

Ten years ago, we launched Amazon Prime, originally designed as an all-you-can-eat free and fast shipping program. We were told repeatedly that it was a risky move, and in some ways it was. In its first year, we gave up many millions of dollars in shipping revenue, and there was no simple math to show that it would be worth it. Our decision to go ahead was built on the positive results we'd seen earlier when we introduced Free Super Saver Shipping, and an intuition that customers would quickly grasp that they were being offered the best deal in the history of shopping. In addition, analysis told us that, if we achieved scale, we would be able to significantly lower the cost of fast shipping.

Our owned-inventory retail business was the foundation of Prime. In addition to creating retail teams to build each of our category-specific online "stores," we have created large-scale systems to automate much of inventory replenishment, inventory placement, and product pricing. The precise delivery-date promise of Prime required operating our fulfillment centers in a new way, and pulling all of this together is one of the great accomplishments of our global operations team. Our worldwide network of fulfillment centers has expanded from 13 in 2005, when we launched Prime, to 109 this year. We are now on our eighth generation of fulfillment center design, employing proprietary software to manage receipt, stowing, picking, and shipment. Amazon Robotics, which began with our acquisition of Kiva in 2012, has now deployed more than 15,000 robots to support the stowing and retrieval of products at a higher density and lower cost than ever before. Our owned-inventory retail business remains our best customer-acquisition vehicle for Prime and a critical part of building out categories that attract traffic and third-party sellers.

Though fast delivery remains a core Prime benefit, we are finding new ways to pump energy into Prime. Two of the most important are digital and devices.

In 2011 we added Prime Instant Video as a benefit, now with tens of thousands of movies and TV episodes available for unlimited streaming in the U.S., and we've started expanding the program into the U.K. and Germany as well. We're investing a significant amount on this content, and it's important that we monitor its impact. We ask ourselves, is it worth it? Is it driving Prime? Among other things, we watch Prime free trial starts, conversion to paid membership, renewal rates, and product purchase rates by members entering through this channel. We like what we see so far and plan to keep investing here.

While most of our PIV spend is on licensed content, we're also starting to develop original content. The team is off to a strong start. Our show *Transparent* became the first from a streaming service to win a Golden Globe for best series and *Tumble Leaf* won the Annie for best animated series for preschoolers. In addition to the critical acclaim, the numbers are promising. An advantage of our original programming is that its first run is on Prime – it hasn't already appeared anywhere else. Together with the quality of the shows, that first run status appears to be one of the factors leading to the attractive numbers. We also like the fixed cost nature of original programming. We get to spread that fixed cost across our large membership base. Finally, our business model for original content is unique. I'm pretty sure we're the first company to have figured out how to make winning a Golden Globe pay off in increased sales of power tools and baby wipes!

Amazon designed and manufactured devices – from Kindle to Fire TV to Echo – also pump energy into Prime services such as Prime Instant Video and Prime Music, and generally drive higher engagement with every element of the Amazon ecosystem. And there’s more to come – our device team has a strong and exciting roadmap ahead.

Prime isn’t done improving on its original fast and free shipping promise either. The recently launched Prime Now offers Prime members free two-hour delivery on tens of thousands of items or one-hour delivery for a \$7.99 fee. Lots of early reviews read like this one, “In the past six weeks my husband and I have made an embarrassing number of orders through Amazon Prime Now. It’s cheap, easy, and insanely fast.” We’ve launched in Manhattan, Brooklyn, Miami, Baltimore, Dallas, Atlanta, and Austin, and more cities are coming soon.

Now, I’d like to talk about Fulfillment by Amazon. FBA is so important because it is glue that inextricably links Marketplace and Prime. Thanks to FBA, Marketplace and Prime are no longer two things. In fact, at this point, I can’t really think about them separately. Their economics and customer experiences are now happily and deeply intertwined.

FBA is a service for Marketplace sellers. When a seller decides to use FBA, they stow their inventory in our fulfillment centers. We take on all logistics, customer service, and product returns. If a customer orders an FBA item and an Amazon owned-inventory item, we can ship both items to the customer in one box – a huge efficiency gain. But even more important, when a seller joins FBA, their items can become Prime eligible.

Maintaining a firm grasp of the obvious is more difficult than one would think it should be. But it’s useful to try. If you ask, what do sellers want? The correct (and obvious) answer is: they want more sales. So, what happens when sellers join FBA and their items become Prime eligible? They get more sales.

Notice also what happens from a Prime member’s point of view. Every time a seller joins FBA, Prime members get more Prime eligible selection. The value of membership goes up. This is powerful for our flywheel. FBA completes the circle: Marketplace pumps energy into Prime, and Prime pumps energy into Marketplace.

In a 2014 survey of U.S. sellers, 71% of FBA merchants reported more than a 20% increase in unit sales after joining FBA. In the holiday period, worldwide FBA units shipped grew 50% over the prior year and represented more than 40% of paid third-party units. Paid Prime memberships grew more than 50% in the U.S. last year and 53% worldwide. FBA is a win for customers and a win for sellers.

### **Amazon Web Services**

A radical idea when it was launched nine years ago, Amazon Web Services is now big and growing fast. Startups were the early adopters. On-demand, pay-as-you-go cloud storage and compute resources dramatically increased the speed of starting a new business. Companies like Pinterest, Dropbox, and Airbnb all used AWS services and remain customers today.

Since then, large enterprises have been coming on board as well, and they’re choosing to use AWS for the same primary reason the startups did: speed and agility. Having lower IT cost is attractive, and sometimes the absolute cost savings can be enormous. But cost savings alone could never overcome deficiencies in performance or functionality. Enterprises are dependent on IT – it’s mission critical. So, the proposition, “I can save you a significant amount on your annual IT bill and my service is almost as good as what you have now,” won’t get too many customers. What customers really want in this arena is “better and faster,” and if “better and faster” can come with a side dish of cost savings, terrific. But the cost savings is the gravy, not the steak.

IT is so high leverage. You don’t want to imagine a competitor whose IT department is more nimble than yours. Every company has a list of technology projects that the business would like to see implemented as soon as possible. The painful reality is that tough triage decisions are always made, and many projects never get done. Even those that get resourced are often delivered late or with incomplete functionality. If an IT department can figure out how to deliver a larger number of business-enabling technology projects faster, they’ll be creating significant and real value for their organization.



These are the main reasons AWS is growing so quickly. IT departments are recognizing that when they adopt AWS, they get more done. They spend less time on low value-add activities like managing datacenters, networking, operating system patches, capacity planning, database scaling, and so on and so on. Just as important, they get access to powerful APIs and tools that dramatically simplify building scalable, secure, robust, high-performance systems. And those APIs and tools are continuously and seamlessly upgraded behind the scenes, without customer effort.

Today, AWS has more than a million active customers as companies and organizations of all sizes use AWS in every imaginable business segment. AWS usage grew by approximately 90% in the fourth quarter of 2014 versus the prior year. Companies like GE, Major League Baseball, Tata Motors, and Qantas are building new applications on AWS – these range from apps for crowdsourcing and personalized healthcare to mobile apps for managing fleets of trucks. Other customers, like NTT DOCOMO, the Financial Times, and the Securities and Exchange Commission are using AWS to analyze and take action on vast amounts of data. And many customers like Condé Nast, Kellogg's, and News Corp are migrating legacy critical applications and, in some cases, entire datacenters to AWS.

We've increased our pace of innovation as we've gone along – from nearly 160 new features and services in 2012, to 280 in 2013, and 516 last year. There are many that would be interesting to talk about – from WorkDocs and WorkMail to AWS Lambda and the EC2 Container Service to the AWS Marketplace – but for purposes of brevity, I'm going to limit myself to one: our recently introduced Amazon Aurora. We hope Aurora will offer customers a new normal for a very important (but also very problematic) technology that is a critical underpinning of many applications: the relational database. Aurora is a MySQL-compatible database engine that offers the speed and availability of high-end commercial databases with the simplicity and cost effectiveness of open source databases. Aurora's performance is up to 5x better than typical MySQL databases, at one-tenth the cost of commercial database packages. Relational databases is an arena that's been a pain point for organizations and developers for a long time, and we're very excited about Aurora.

I believe AWS is one of those dreamy business offerings that can be serving customers and earning financial returns for many years into the future. Why am I optimistic? For one thing, the size of the opportunity is big, ultimately encompassing global spend on servers, networking, datacenters, infrastructure software, databases, data warehouses, and more. Similar to the way I think about Amazon retail, for all practical purposes, I believe AWS is market-size unconstrained.

Second, its current leadership position (which is significant) is a strong ongoing advantage. We work hard – very hard – to make AWS as easy to use as possible. Even so, it's still a necessarily complex set of tools with rich functionality and a non-trivial learning curve. Once you've become proficient at building complex systems with AWS, you do not want to have to learn a new set of tools and APIs assuming the set you already understand works for you. This is in no way something we can rest on, but if we continue to serve our customers in a truly outstanding way, they will have a rational preference to stick with us.

In addition, also because of our leadership position, we now have thousands of what are effectively AWS ambassadors roaming the world. Software developers changing jobs, moving from one company to another, become our best sales people: "We used AWS where I used to work, and we should consider it here. I think we'd get more done." It's a good sign that proficiency with AWS and its services is already something software developers are adding to their resumes.

Finally, I'm optimistic that AWS will have strong returns on capital. This is one we as a team examine because AWS is capital intensive. The good news is we like what we see when we do these analyses. Structurally, AWS is far less capital intensive than the mode it's replacing – do-it-yourself datacenters – which have low utilization rates, almost always below 20%. Pooling of workloads across customers gives AWS much higher utilization rates, and correspondingly higher capital efficiency. Further, once again our leadership position helps: scale economies can provide us a relative advantage on capital efficiency. We'll continue to watch and shape the business for good returns on capital.

AWS is young, and it is still growing and evolving. We think we can continue to lead if we continue to execute with our customers' needs foremost in mind.

### Career Choice

Before closing, I want to take a moment to update shareowners on something we're excited about and proud of. Three years ago we launched an innovative employee benefit – the Career Choice program, where we pre-pay 95% of tuition for employees to take courses for in-demand fields, such as airplane mechanic or nursing, regardless of whether the skills are relevant to a career at Amazon. The idea was simple: enable choice.

We know that, for some of our fulfillment and customer service center employees, Amazon will be a career. For others, Amazon might be a stepping stone on the way to a job somewhere else – a job that may require new skills. If the right training can make the difference, we want to help, and so far we have been able to help over 2,000 employees who have participated in the program in eight different countries. There's been so much interest that we are now building onsite classrooms so college and technical classes can be taught inside our fulfillment centers, making it even easier for associates to achieve these goals.

There are now eight FCs offering 15 classes taught onsite in our purpose-built classrooms with high-end technology features, and designed with glass walls to inspire others to participate and generate encouragement from peers. We believe Career Choice is an innovative way to draw great talent to serve customers in our fulfillment and customer service centers. These jobs can become gateways to great careers with Amazon as we expand around the world or enable employees the opportunity to follow their passion in other in-demand technical fields, like our very first Career Choice graduate did when she started a new career as a nurse in her community.

I would also like to invite you to come join the more than 24,000 people who have signed up so far to see the magic that happens after you click buy on Amazon.com by touring one of our fulfillment centers. In addition to U.S. tours, we are now offering tours at sites around the world, including Rugeley in the U.K. and Graben in Germany and continuing to expand. You can sign up for a tour at [www.amazon.com/fctours](http://www.amazon.com/fctours).

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Marketplace, Prime, and Amazon Web Services are three big ideas. We're lucky to have them, and we're determined to improve and nurture them – make them even better for customers. You can also count on us to work hard to find a fourth. We've already got a number of candidates in work, and as we promised some twenty years ago, we'll continue to make bold bets. With the opportunities unfolding in front of us to serve customers better through invention, we assure you we won't stop trying.

As always, I attach a copy of our original 1997 letter. Our approach remains the same, because it's still Day 1.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

**1997 Letter reprint  
available on pages  
1 and 68**



To our shareowners:

This year, Amazon became the fastest company ever to reach \$100 billion in annual sales. Also this year, Amazon Web Services is reaching \$10 billion in annual sales ... doing so at a pace even faster than Amazon achieved that milestone.

What's going on here? Both were planted as tiny seeds and both have grown organically without significant acquisitions into meaningful and large businesses, quickly. Superficially, the two could hardly be more different. One serves consumers and the other serves enterprises. One is famous for brown boxes and the other for APIs. Is it only a coincidence that two such dissimilar offerings grew so quickly under one roof? Luck plays an outsized role in every endeavor, and I can assure you we've had a bountiful supply. But beyond that, there is a connection between these two businesses. Under the surface, the two are not so different after all. They share a distinctive organizational culture that cares deeply about and acts with conviction on a small number of principles. I'm talking about customer obsession rather than competitor obsession, eagerness to invent and pioneer, willingness to fail, the patience to think long-term, and the taking of professional pride in operational excellence. Through that lens, AWS and Amazon retail are very similar indeed.

A word about corporate cultures: for better or for worse, they are enduring, stable, hard to change. They can be a source of advantage or disadvantage. You can write down your corporate culture, but when you do so, you're discovering it, uncovering it – not creating it. It is created slowly over time by the people and by events – by the stories of past success and failure that become a deep part of the company lore. If it's a distinctive culture, it will fit certain people like a custom-made glove. The reason cultures are so stable in time is because people self-select. Someone energized by competitive zeal may select and be happy in one culture, while someone who loves to pioneer and invent may choose another. The world, thankfully, is full of many high-performing, highly distinctive corporate cultures. We never claim that our approach is the right one – just that it's ours – and over the last two decades, we've collected a large group of like-minded people. Folks who find our approach energizing and meaningful.

One area where I think we are especially distinctive is failure. I believe we are the best place in the world to fail (we have plenty of practice!), and failure and invention are inseparable twins. To invent you have to experiment, and if you know in advance that it's going to work, it's not an experiment. Most large organizations embrace the idea of invention, but are not willing to suffer the string of failed experiments necessary to get there. Outsized returns often come from betting against conventional wisdom, and conventional wisdom is usually right. Given a ten percent chance of a 100 times payoff, you should take that bet every time. But you're still going to be wrong nine times out of ten. We all know that if you swing for the fences, you're going to strike out a lot, but you're also going to hit some home runs. The difference between baseball and business, however, is that baseball has a truncated outcome distribution. When you swing, no matter how well you connect with the ball, the most runs you can get is four. In business, every once in a while, when you step up to the plate, you can score 1,000 runs. This long-tailed distribution of returns is why it's important to be bold. Big winners pay for so many experiments.

AWS, Marketplace and Prime are all examples of bold bets at Amazon that worked, and we're fortunate to have those three big pillars. They have helped us grow into a large company, and there are certain things that only large companies can do. With a tip of the hat to our Seattle neighbors, no matter how good an entrepreneur you are, you're not going to build an all-composite 787 in your garage startup – not one you'd want to fly in anyway. Used well, our scale enables us to build services for customers that we could otherwise never even contemplate. But also, if we're not vigilant and thoughtful, size could slow us down and diminish our inventiveness.

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As I meet with teams across Amazon, I am continually amazed at the passion, intelligence and creativity on display. Our teams accomplished a lot in the last year, and I'd like to share a few of the highlights of our efforts to nourish and globalize our three big offerings – Prime, Marketplace and AWS. And while I'll focus on those three, I assure you that we also remain hard at work on finding a fourth.

## Prime

We want Prime to be such a good value, you'd be irresponsible not to be a member.

We've grown Prime two-day delivery selection from 1 million items to over 30 million, added Sunday Delivery, and introduced Free Same-Day Delivery on hundreds of thousands of products for customers in more than 35 cities around the world. We've added music, photo storage, the Kindle Owners' Lending Library, and streaming films and TV.

Prime Now offers members one-hour delivery on an important subset of selection, and was launched only 111 days after it was dreamed up. In that time, a small team built a customer-facing app, secured a location for an urban warehouse, determined which 25,000 items to sell, got those items stocked, recruited and on-boarded new staff, tested, iterated, designed new software for internal use – both a warehouse management system and a driver-facing app – and launched in time for the holidays. Today, just 15 months after that first city launch, Prime Now is serving members in more than 30 cities around the world.

Prime Video offers exclusives from some of the world's most passionate storytellers. We want brilliant creators like Jill Soloway, Jason Schwartzman and Spike Lee to take risks and push boundaries. Our original series have already earned more than 120 nominations and won nearly 60 awards, including Golden Globe and Emmy awards. Many of these are stories that might never have been told in the traditional linear programming model. In the pipeline and coming soon are new series and movies from creators like Jeremy Clarkson, David E. Kelley, Woody Allen and Kenneth Lonergan.

*The Man in the High Castle*, based on the Philip K. Dick novel, explores an alternate history where the U.S. lost World War II. It debuted on Prime Video on November 20th and in four weeks became our most-viewed show – receiving acclaim from critics like "...Amazon has the best new drama of the season in *The Man in the High Castle*" and "*The Man in the High Castle* accomplishes so much, where most new broadcast TV dramas these days don't even try."

These shows are great for customers, and they feed the Prime flywheel – Prime members who watch Prime Video are more likely to convert from a free trial to a paid membership, and more likely to renew their annual subscriptions.

Finally, our first ever Prime Day surpassed all our expectations – more new members tried Prime that day than any other day in our history. Worldwide order growth increased 266% over the same day the year before, and sellers whose products are Prime-eligible through FBA saw record-breaking sales – with growth nearing 300%.

Prime has become an all-you-can-eat, physical-digital hybrid that members love. Membership grew 51% last year – including 47% growth in the U.S. and even faster internationally – and there are now tens of millions of members worldwide. There's a good chance you're already one of them, but if you're not – please be responsible – join Prime.

## Marketplace

We took two big swings and missed – with Auctions and zShops – before we launched Marketplace over 15 years ago. We learned from our failures and stayed stubborn on the vision, and today close to 50% of units sold on Amazon are sold by third-party sellers. Marketplace is great for customers because it adds unique selection, and it's great for sellers – there are over 70,000 entrepreneurs with sales of more than \$100,000 a year selling on

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Amazon, and they've created over 600,000 new jobs. With FBA, that flywheel spins faster because sellers' inventory becomes Prime-eligible – Prime becomes more valuable for members, and sellers sell more.

This year, we created a new program called Seller Fulfilled Prime. We invited sellers who are able to meet a high bar for shipping speed and consistency in service to be part of the Prime program and ship their own orders at Prime speed directly. Those sellers have already seen a significant bump in sales, and the program has led to hundreds of thousands of additional items that are available to Prime customers via free two-day or next-day shipping in the U.S., U.K. and Germany.

We also created the Amazon Lending program to help sellers grow. Since the program launched, we've provided aggregate funding of over \$1.5 billion to micro, small and medium businesses across the U.S., U.K. and Japan through short-term loans, with a total outstanding loan balance of about \$400 million. Stephen Aarstol, surfer and owner of Tower Paddle Boards, is one beneficiary. His business has become one of the fastest-growing companies in San Diego, in part with a little help from Amazon Lending. Click-to-cash access to capital helps these small enterprises grow, benefits customers with greater selection, and benefits Amazon since our marketplace revenue grows along with the sellers' sales. We hope to expand Amazon Lending and are now working on ways to partner with banks so they can use their expertise to take and manage the bulk of the credit risk.

In addition to nourishing our big offerings, we work to globalize them. Our Marketplace creates opportunities for sellers anywhere to reach buyers around the world. In the past, many sellers would limit their customer base to their home country due to the practical challenges of selling internationally. To globalize Marketplace and expand the opportunities available to sellers, we built selling tools that empowered entrepreneurs in 172 countries to reach customers in 189 countries last year. These cross-border sales are now nearly a quarter of all third-party units sold on Amazon. To make this possible, we translated hundreds of millions of product listings and provided conversion services among 44 currencies. Even small and niche sellers can now tap into our global customer base and global logistics network. The end result is very different from sellers handling their own one-at-a-time, cross-border fulfillment. Plugable Technologies' CEO, Bernie Thompson, put it this way: "It really changes the paradigm when you're able to ship the goods in bulk to a warehouse in Europe or Japan and have those goods be fulfilled in one day or two days."

India is another example of how we globalize an offering like Marketplace through customer obsession and a passion for invention. Last year we ran a program called Amazon Chai Cart where we deployed three-wheeled mobile carts to navigate in a city's business districts, serve tea, water and lemon juice to small business owners and teach them about selling online. In a period of four months, the team traveled 15,280 km across 31 cities, served 37,200 cups of tea and engaged with over 10,000 sellers. Through this program and other conversations with sellers, we found out there was a lot of interest in selling online, but that sellers struggled with the belief that the process was time-consuming, tedious and complex. So, we invented Amazon Tatkal, which enables small businesses to get online in less than 60 minutes. Amazon Tatkal is a specially designed studio-on-wheels offering a suite of launch services including registration, imaging and cataloguing services, as well as basic seller training mechanisms. Since its launch on February 17th, we have reached sellers in 25 cities.

We're also globalizing Fulfillment by Amazon, adapting the service to local customer needs. In India, we launched a program called Seller Flex to combine Amazon's logistics capabilities with sellers' selection at the local neighborhood level. Sellers set aside a part of their warehouse for storing items to be sold on Amazon, and we configure it as a fulfillment center in our network that can receive and fulfill customer orders. Our team provides guidance on warehouse layout, IT and operational infrastructure, and trains the seller on standard operating procedures to be followed onsite. We've now launched 25 operational Seller Flex sites across ten cities.

### **Amazon Web Services**

Just over 10 years ago, AWS started in the U.S. with its first major service, a simple storage service. Today, AWS offers more than 70 services for compute, storage, databases, analytics, mobile, Internet of Things, and enterprise applications. We also offer 33 Availability Zones across 12 geographic regions worldwide, with

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another five regions and 11 Availability Zones in Canada, China, India, the U.S., and the U.K. to be available in the coming year. AWS started with developers and startups, and now is used by more than a million customers from organizations of every size across nearly every industry – companies like Pinterest, Airbnb, GE, Enel, Capital One, Intuit, Johnson & Johnson, Philips, Hess, Adobe, McDonald’s, and Time Inc.

AWS is bigger than Amazon.com was at 10 years old, growing at a faster rate, and – most noteworthy in my view – the pace of innovation continues to accelerate – we announced 722 significant new features and services in 2015, a 40% increase over 2014.

Many characterized AWS as a bold – and unusual – bet when we started. “What does this have to do with selling books?” We could have stuck to the knitting. I’m glad we didn’t. Or did we? Maybe the knitting has as much to do with our approach as the arena. AWS is customer obsessed, inventive and experimental, long-term oriented, and cares deeply about operational excellence.

Given 10 years and many iterations, that approach has allowed AWS to rapidly expand into the world’s most comprehensive, widely adopted cloud service. As with our retail business, AWS is made up of many small teams with single-threaded owners, enabling rapid innovation. The team rolls out new functionality almost daily across 70 services, and that new functionality just “shows up” for customers – there’s no upgrading.

Many companies describe themselves as customer-focused, but few walk the walk. Most big technology companies are competitor focused. They see what others are doing, and then work to fast follow. In contrast, 90 to 95% of what we build in AWS is driven by what customers tell us they want. A good example is our new database engine, Amazon Aurora. Customers have been frustrated by the proprietary nature, high cost, and licensing terms of traditional, commercial-grade database providers. And while many companies have started moving toward more open engines like MySQL and Postgres, they often struggle to get the performance they need. Customers asked us if we could eliminate that inconvenient trade-off, and that’s why we built Aurora. It has commercial-grade durability and availability, is fully compatible with MySQL, has up to 5 times better performance than the typical MySQL implementation, but is 1/10th the price of the traditional, commercial-grade database engines. This has struck a resonant chord with customers, and Aurora is the fastest-growing service in the history of AWS. Nearly this same story could be told about Redshift, our managed data warehouse service, which is the second fastest growing service in AWS history – both small and large companies are moving their data warehouses to Redshift.

Our approach to pricing is also driven by our customer-centric culture – we’ve dropped prices 51 times, in many cases before there was any competitive pressure to do so. In addition to price reductions, we’ve also continued to launch new lower cost services like Aurora, Redshift, QuickSight (our new Business Intelligence service), EC2 Container Service (our new compute container service), and Lambda (our pioneering server-less computing capability), while extending our services to offer a range of highly cost-effective options for running just about every type of application or IT use case imaginable. We even roll out and continuously improve services like Trusted Advisor, which alerts customers when they can save money – resulting in hundreds of millions of dollars in savings for our customers. I’m pretty sure we’re the only IT vendor telling customers how to stop spending money with us.

Whether you are a startup founded yesterday or a business that has been around for 140 years, the cloud is providing all of us with unbelievable opportunities to reinvent our businesses, add new customer experiences, redeploy capital to fuel growth, increase security, and do all of this so much faster than before. MLB Advanced Media is an example of an AWS customer that is constantly reinventing the customer experience. MLB’s Statcast tracking technology is a new feature for baseball fans that measures the position of each player, the baserunners, and the ball as they move during every play on the field, giving viewers on any screen access to empirical data that answers age-old questions like “what could have happened if...” while also bringing new questions to life. Turning baseball into rocket science, Statcast uses a missile radar system to measure every pitched ball’s movements more than 2,000 times per second, streams and collects data in real-time through Amazon Kinesis (our service for processing real-time streaming data), stores the data on Amazon S3, and then performs analytics in Amazon EC2. The suite of services will generate nearly 7 TB of raw statistical data per game and up to 17 PB per season, shedding quantitative light on age-old, but never verified, baseball pearls of wisdom like “never slide into first.”

About seven years ago, Netflix announced that they were going to move all their applications to the cloud. Netflix chose AWS because it provided them with the greatest scale and the broadest set of services and features. Netflix recently completed their cloud migration, and stories like theirs are becoming increasingly common as companies like Infor, Intuit, and Time Inc., have made plans to move all of their applications to AWS.

AWS is already good enough today to attract more than 1 million customers, and the service is only going to get better from here. As the team continues their rapid pace of innovation, we'll offer more and more capabilities to let builders build unfettered, it will get easier and easier to collect, store and analyze data, we'll continue to add more geographic locations, and we'll continue to see growth in mobile and "connected" device applications. Over time, it's likely that most companies will choose not to run their own data centers, opting for the cloud instead.

### **Invention Machine**

We want to be a large company that's also an invention machine. We want to combine the extraordinary customer-serving capabilities that are enabled by size with the speed of movement, nimbleness, and risk-acceptance mentality normally associated with entrepreneurial start-ups.

Can we do it? I'm optimistic. We have a good start on it, and I think our culture puts us in a position to achieve the goal. But I don't think it'll be easy. There are some subtle traps that even high-performing large organizations can fall into as a matter of course, and we'll have to learn as an institution how to guard against them. One common pitfall for large organizations – one that hurts speed and inventiveness – is "one-size-fits-all" decision making.

Some decisions are consequential and irreversible or nearly irreversible – one-way doors – and these decisions must be made methodically, carefully, slowly, with great deliberation and consultation. If you walk through and don't like what you see on the other side, you can't get back to where you were before. We can call these Type 1 decisions. But most decisions aren't like that – they are changeable, reversible – they're two-way doors. If you've made a suboptimal Type 2 decision, you don't have to live with the consequences for that long. You can reopen the door and go back through. Type 2 decisions can and should be made quickly by high judgment individuals or small groups.

As organizations get larger, there seems to be a tendency to use the heavy-weight Type 1 decision-making *process* on most decisions, including many Type 2 decisions. The end result of this is slowness, unthoughtful risk aversion, failure to experiment sufficiently, and consequently diminished invention.<sup>1</sup> We'll have to figure out how to fight that tendency.

And one-size-fits-all thinking will turn out to be only one of the pitfalls. We'll work hard to avoid it... and any other large organization maladies we can identify.

### **Sustainability and Social Invention**

Our growth has happened fast. Twenty years ago, I was driving boxes to the post office in my Chevy Blazer and dreaming of a forklift. In absolute numbers (as opposed to percentages), the past few years have been especially significant. We've grown from 30,000 employees in 2010 to more than 230,000 now. We're a bit like parents who look around one day and realize their kids are grown – you blink and it happens.

One thing that's exciting about our current scale is that we can put our inventive culture to work on moving the needle on sustainability and social issues.

Two years ago we set a long-term goal to use 100% renewable energy across our global AWS infrastructure. We've since announced four significant wind and solar farms that will deliver 1.6 million megawatt hours per

<sup>1</sup> The opposite situation is less interesting and there is undoubtedly some survivorship bias. Any companies that habitually use the light-weight Type 2 decision-making process to make Type 1 decisions go extinct before they get large.

year of additional renewable energy into the electric grids that supply AWS data centers. Amazon Wind Farm Fowler Ridge has already come online. We reached 25% sustainable energy use across AWS last year, are on track to reach 40% this year, and are working on goals that will cover all of Amazon's facilities around the world, including our fulfillment centers.

We'll keep expanding our efforts in areas like packaging, where our culture of invention led to a big winner – the Frustration-Free Packaging program. Seven years ago we introduced the initiative with 19 products. Today, there are more than 400,000 globally. In 2015, the program eliminated tens of millions of pounds of excess packaging material. Frustration-Free Packaging is a customer delighter because the packages are easier to open. It's good for the planet because it creates less waste. And it's good for shareholders because, with tighter packaging, we ship less "air" and save on transportation costs.

We also continue to pioneer new programs for employees – like Career Choice, Leave Share, and Ramp Back. Career Choice pre-pays 95% of tuition for courses that teach in-demand skills, regardless of whether those skills are relevant to a career at Amazon. We'll pay for nursing certifications, airplane mechanic courses, and many others. We're building classrooms with glass walls right in our fulfillment centers as a way to encourage employees to participate in the program and to make it easy. We see the impact through stories like Sharie Warmack – a single mother of eight who worked in one of our Phoenix fulfillment centers. Career Choice paid for Sharie to get licensed to drive an 18-wheeler. Sharie worked hard, passed her tests, and she's now a long-haul driver for Schneider Trucking – and loving it. This coming year, we're launching a program to teach other interested companies the benefits of Career Choice and how to implement it.

Leave Share and Ramp Back are programs that give new parents flexibility with their growing families. Leave Share lets employees share their Amazon paid leave with their spouse or domestic partner if their spouse's employer doesn't offer paid leave. Ramp Back gives birth mothers additional control over the pace at which they return to work. Just as with our health care plan, these benefits are egalitarian – they're the same for our fulfillment center and customer service employees as they are for our most senior executives.

Renewable energy, Frustration-Free Packaging, Career Choice, Leave Share, and Ramp Back are examples of a culture that embraces invention and long-term thinking. It's very energizing to think that our scale provides opportunities to create impact in these areas.

I can tell you it's a great joy for me to get to work every day with a team of such smart, imaginative, and passionate people. On behalf of all of us at Amazon, thank you for your support as shareholders. As always, I attach a copy of our original 1997 letter. Our approach remains the same, and it's still Day 1.



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

**1997 Letter reprint  
available on pages  
1 and 68**





“Jeff, what does Day 2 look like?”

That’s a question I just got at our most recent all-hands meeting. I’ve been reminding people that it’s Day 1 for a couple of decades. I work in an Amazon building named Day 1, and when I moved buildings, I took the name with me. I spend time thinking about this topic.

“Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And *that* is why it is *always* Day 1.”

To be sure, this kind of decline would happen in extreme slow motion. An established company might harvest Day 2 for decades, but the final result would still come.

I’m interested in the question, how do you fend off Day 2? What are the techniques and tactics? How do you keep the vitality of Day 1, even inside a large organization?

Such a question can’t have a simple answer. There will be many elements, multiple paths, and many traps. I don’t know the whole answer, but I may know bits of it. Here’s a starter pack of essentials for Day 1 defense: customer obsession, a skeptical view of proxies, the eager adoption of external trends, and high-velocity decision making.

#### True Customer Obsession

There are many ways to center a business. You can be competitor focused, you can be product focused, you can be technology focused, you can be business model focused, and there are more. But in my view, obsessive customer focus is by far the most protective of Day 1 vitality.

Why? There are many advantages to a customer-centric approach, but here’s the big one: customers are *always* beautifully, wonderfully dissatisfied, even when they report being happy and business is great. Even when they don’t yet know it, customers want something better, and your desire to delight customers will drive you to invent on their behalf. No customer ever asked Amazon to create the Prime membership program, but it sure turns out they wanted it, and I could give you many such examples.

Staying in Day 1 requires you to experiment patiently, accept failures, plant seeds, protect saplings, and double down when you see customer delight. A customer-obsessed culture best creates the conditions where all of that can happen.

#### Resist Proxies

As companies get larger and more complex, there’s a tendency to manage to proxies. This comes in many shapes and sizes, and it’s dangerous, subtle, and very Day 2.

A common example is process as proxy. Good process serves you so you can serve customers. But if you’re not watchful, the process can become the thing. This can happen very easily in large organizations. The process becomes the proxy for the result you want. You stop looking at outcomes and just make sure you’re doing the process right. Gulp. It’s not that rare to hear a junior leader defend a bad outcome with something like, “Well, we followed the process.” A more experienced leader will use it as an opportunity to investigate and improve the process. The process is not the thing. It’s always worth asking, do we own the process or does the process own us? In a Day 2 company, you might find it’s the second.

Another example: market research and customer surveys can become proxies for customers – something that’s especially dangerous when you’re inventing and designing products. “Fifty-five percent of beta testers report being satisfied with this feature. That is up from 47% in the first survey.” That’s hard to interpret and could unintentionally mislead.

Good inventors and designers *deeply* understand their customer. They spend tremendous energy developing that intuition. They study and understand many anecdotes rather than only the averages you'll find on surveys. They *live* with the design.

I'm not against beta testing or surveys. But you, the product or service owner, must understand the customer, have a vision, and love the offering. Then, beta testing and research can help you find your blind spots. A remarkable customer experience starts with heart, intuition, curiosity, play, guts, taste. You won't find any of it in a survey.

#### Embrace External Trends

The outside world can push you into Day 2 if you won't or can't embrace powerful trends quickly. If you fight them, you're probably fighting the future. Embrace them and you have a tailwind.

These big trends are not that hard to spot (they get talked and written about a lot), but they can be strangely hard for large organizations to embrace. We're in the middle of an obvious one right now: machine learning and artificial intelligence.

Over the past decades computers have broadly automated tasks that programmers could describe with clear rules and algorithms. Modern machine learning techniques now allow us to do the same for tasks where describing the precise rules is much harder.

At Amazon, we've been engaged in the practical application of machine learning for many years now. Some of this work is highly visible: our autonomous Prime Air delivery drones; the Amazon Go convenience store that uses machine vision to eliminate checkout lines; and Alexa,<sup>1</sup> our cloud-based AI assistant. (We still struggle to keep Echo in stock, despite our best efforts. A high-quality problem, but a problem. We're working on it.)

But much of what we do with machine learning happens beneath the surface. Machine learning drives our algorithms for demand forecasting, product search ranking, product and deals recommendations, merchandising placements, fraud detection, translations, and much more. Though less visible, much of the impact of machine learning will be of this type – quietly but meaningfully improving core operations.

Inside AWS, we're excited to lower the costs and barriers to machine learning and AI so organizations of all sizes can take advantage of these advanced techniques.

Using our pre-packaged versions of popular deep learning frameworks running on P2 compute instances (optimized for this workload), customers are already developing powerful systems ranging everywhere from early disease detection to increasing crop yields. And we've also made Amazon's higher level services available in a convenient form. Amazon Lex (what's inside Alexa), Amazon Polly, and Amazon Rekognition remove the heavy lifting from natural language understanding, speech generation, and image analysis. They can be accessed with simple API calls – no machine learning expertise required. Watch this space. Much more to come.

#### High-Velocity Decision Making

Day 2 companies make high-*quality* decisions, but they make high-quality decisions *slowly*. To keep the energy and dynamism of Day 1, you have to somehow make high-quality, *high-velocity* decisions. Easy for start-ups and very challenging for large organizations. The senior team at Amazon is determined to keep our decision-making velocity high. Speed matters in business – plus a high-velocity decision making environment is more fun too. We don't know all the answers, but here are some thoughts.

First, never use a one-size-fits-all decision-making process. Many decisions are reversible, two-way doors. Those decisions can use a light-weight process. For those, so what if you're wrong? I wrote about this in more detail in last year's letter.

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<sup>1</sup> For something amusing, try asking, "Alexa, what is sixty factorial?"

Second, most decisions should probably be made with somewhere around 70% of the information you wish you had. If you wait for 90%, in most cases, you're probably being slow. Plus, either way, you need to be good at quickly recognizing and correcting bad decisions. If you're good at course correcting, being wrong may be less costly than you think, whereas being slow is going to be expensive for sure.

Third, use the phrase "disagree and commit." This phrase will save a lot of time. If you have conviction on a particular direction even though there's no consensus, it's helpful to say, "Look, I know we disagree on this but will you gamble with me on it? Disagree and commit?" By the time you're at this point, no one can know the answer for sure, and you'll probably get a quick yes.

This isn't one way. If you're the boss, you should do this too. I disagree and commit all the time. We recently greenlit a particular Amazon Studios original. I told the team my view: debatable whether it would be interesting enough, complicated to produce, the business terms aren't that good, and we have lots of other opportunities. They had a completely different opinion and wanted to go ahead. I wrote back right away with "I disagree and commit and hope it becomes the most watched thing we've ever made." Consider how much slower this decision cycle would have been if the team had actually had to *convince* me rather than simply get my commitment.

Note what this example is not: it's not me thinking to myself "well, these guys are wrong and missing the point, but this isn't worth me chasing." It's a genuine disagreement of opinion, a candid expression of my view, a chance for the team to weigh my view, and a quick, sincere commitment to go their way. And given that this team has already brought home 11 Emmys, 6 Golden Globes, and 3 Oscars, I'm just glad they let me in the room at all!

Fourth, recognize true *misalignment* issues early and escalate them *immediately*. Sometimes teams have different objectives and fundamentally different views. They are not aligned. No amount of discussion, no number of meetings will resolve that deep misalignment. Without escalation, the default dispute resolution mechanism for this scenario is exhaustion. Whoever has more stamina carries the decision.

I've seen many examples of sincere misalignment at Amazon over the years. When we decided to invite third party sellers to compete directly against us on our own product detail pages – that was a big one. Many smart, well-intentioned Amazonians were simply not at all aligned with the direction. The big decision set up hundreds of smaller decisions, many of which needed to be escalated to the senior team.

"You've worn me down" is an awful decision-making process. It's slow and de-energizing. Go for quick escalation instead – it's better.

So, have you settled only for decision quality, or are you mindful of decision velocity too? Are the world's trends tailwinds for you? Are you falling prey to proxies, or do they serve you? And most important of all, are you delighting customers? We can have the scope and capabilities of a large company and the spirit and heart of a small one. But we have to choose it.

A huge thank you to each and every customer for allowing us to serve you, to our shareowners for your support, and to Amazonians everywhere for your hard work, your ingenuity, and your passion.

As always, I attach a copy of our original 1997 letter. It remains Day 1.

Sincerely,

Jeff



Jeffrey P. Bezos  
Founder and Chief Executive Officer  
Amazon.com, Inc.

**1997 Letter reprint  
available on pages  
1 and 68**

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# amazon.com

## 1997 LETTER TO SHAREHOLDERS (Reprinted from the 1997 Annual Report)

To our shareholders:

Amazon.com passed many milestones in 1997: by year-end, we had served more than 1.5 million customers, yielding 838% revenue growth to \$147.8 million, and extended our market leadership despite aggressive competitive entry.

But this is Day 1 for the Internet and, if we execute well, for Amazon.com. Today, online commerce saves customers money and precious time. Tomorrow, through personalization, online commerce will accelerate the very process of discovery. Amazon.com uses the Internet to create real value for its customers and, by doing so, hopes to create an enduring franchise, even in established and large markets.

We have a window of opportunity as larger players marshal the resources to pursue the online opportunity and as customers, new to purchasing online, are receptive to forming new relationships. The competitive landscape has continued to evolve at a fast pace. Many large players have moved online with credible offerings and have devoted substantial energy and resources to building awareness, traffic, and sales. Our goal is to move quickly to solidify and extend our current position while we begin to pursue the online commerce opportunities in other areas. We see substantial opportunity in the large markets we are targeting. This strategy is not without risk: it requires serious investment and crisp execution against established franchise leaders.

### *It's All About the Long Term*

We believe that a fundamental measure of our success will be the shareholder value we create over the *long term*. This value will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital.

Our decisions have consistently reflected this focus. We first measure ourselves in terms of the metrics most indicative of our market leadership: customer and revenue growth, the degree to which our customers continue to purchase from us on a repeat basis, and the strength of our brand. We have invested and will continue to invest aggressively to expand and leverage our customer base, brand, and infrastructure as we move to establish an enduring franchise.

Because of our emphasis on the long term, we may make decisions and weigh tradeoffs differently than some companies. Accordingly, we want to share with you our fundamental management and decision-making approach so that you, our shareholders, may confirm that it is consistent with your investment philosophy:

- We will continue to focus relentlessly on our customers.
- We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.
- We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.

- We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.
- When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.
- We will share our strategic thought processes with you when we make bold choices (to the extent competitive pressures allow), so that you may evaluate for yourselves whether we are making rational long-term leadership investments.
- We will work hard to spend wisely and maintain our lean culture. We understand the importance of continually reinforcing a cost-conscious culture, particularly in a business incurring net losses.
- We will balance our focus on growth with emphasis on long-term profitability and capital management. At this stage, we choose to prioritize growth because we believe that scale is central to achieving the potential of our business model.
- We will continue to focus on hiring and retaining versatile and talented employees, and continue to weight their compensation to stock options rather than cash. We know our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner.

We aren't so bold as to claim that the above is the "right" investment philosophy, but it's ours, and we would be remiss if we weren't clear in the approach we have taken and will continue to take.

With this foundation, we would like to turn to a review of our business focus, our progress in 1997, and our outlook for the future.

### *Obsess Over Customers*

From the beginning, our focus has been on offering our customers compelling value. We realized that the Web was, and still is, the World Wide Wait. Therefore, we set out to offer customers something they simply could not get any other way, and began serving them with books. We brought them much more selection than was possible in a physical store (our store would now occupy 6 football fields), and presented it in a useful, easy-to-search, and easy-to-browse format in a store open 365 days a year, 24 hours a day. We maintained a dogged focus on improving the shopping experience, and in 1997 substantially enhanced our store. We now offer customers gift certificates, 1-Click<sup>SM</sup> shopping, and vastly more reviews, content, browsing options, and recommendation features. We dramatically lowered prices, further increasing customer value. Word of mouth remains the most powerful customer acquisition tool we have, and we are grateful for the trust our customers have placed in us. Repeat purchases and word of mouth have combined to make Amazon.com the market leader in online bookselling.

By many measures, Amazon.com came a long way in 1997:

- Sales grew from \$15.7 million in 1996 to \$147.8 million – an 838% increase.
- Cumulative customer accounts grew from 180,000 to 1,510,000 – a 738% increase.
- The percentage of orders from repeat customers grew from over 46% in the fourth quarter of 1996 to over 58% in the same period in 1997.
- In terms of audience reach, per Media Metrix, our Web site went from a rank of 90th to within the top 20.
- We established long-term relationships with many important strategic partners, including America Online, Yahoo!, Excite, Netscape, GeoCities, AltaVista, @Home, and Prodigy.

*Infrastructure*

During 1997, we worked hard to expand our business infrastructure to support these greatly increased traffic, sales, and service levels:

- Amazon.com's employee base grew from 158 to 614, and we significantly strengthened our management team.
- Distribution center capacity grew from 50,000 to 285,000 square feet, including a 70% expansion of our Seattle facilities and the launch of our second distribution center in Delaware in November.
- Inventories rose to over 200,000 titles at year-end, enabling us to improve availability for our customers.
- Our cash and investment balances at year-end were \$125 million, thanks to our initial public offering in May 1997 and our \$75 million loan, affording us substantial strategic flexibility.

*Our Employees*

The past year's success is the product of a talented, smart, hard-working group, and I take great pride in being a part of this team. Setting the bar high in our approach to hiring has been, and will continue to be, the single most important element of Amazon.com's success.

It's not easy to work here (when I interview people I tell them, "You can work long, hard, or smart, but at Amazon.com you can't choose two out of three"), but we are working to build something important, something that matters to our customers, something that we can all tell our grandchildren about. Such things aren't meant to be easy. We are incredibly fortunate to have this group of dedicated employees whose sacrifices and passion build Amazon.com.

*Goals for 1998*

We are still in the early stages of learning how to bring new value to our customers through Internet commerce and merchandising. Our goal remains to continue to solidify and extend our brand and customer base. This requires sustained investment in systems and infrastructure to support outstanding customer convenience, selection, and service while we grow. We are planning to add music to our product offering, and over time we believe that other products may be prudent investments. We also believe there are significant opportunities to better serve our customers overseas, such as reducing delivery times and better tailoring the customer experience. To be certain, a big part of the challenge for us will lie not in finding new ways to expand our business, but in prioritizing our investments.

We now know vastly more about online commerce than when Amazon.com was founded, but we still have so much to learn. Though we are optimistic, we must remain vigilant and maintain a sense of urgency. The challenges and hurdles we will face to make our long-term vision for Amazon.com a reality are several: aggressive, capable, well-funded competition; considerable growth challenges and execution risk; the risks of product and geographic expansion; and the need for large continuing investments to meet an expanding market opportunity. However, as we've long said, online bookselling, and online commerce in general, should prove to be a very large market, and it's likely that a number of companies will see significant benefit. We feel good about what we've done, and even more excited about what we want to do.

1997 was indeed an incredible year. We at Amazon.com are grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement.



Jeffrey P. Bezos  
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