

Season 4, Episode 8: The Amazon Business Model (and the Strategy You Can Learn From It)

[00:00:00] **Joya:** Kathie, good afternoon. It is Wednesday, October 27th. And this is Season Four, Episode Eight of Drink Like a Lady, which is a podcast designed for you as a female leader to get a seat at the bar and a seat in the boardroom. And this season, we are focused on how to think strategically. And very specifically for this episode, we are doing a deep dive into the Amazon business model and the strategy that you can learn from it. Why did you pick Amazon?

[00:00:29] **Kathie:** Well, I think Amazon really is, and you're going to see as we go through this whole case study that we worked on and we brought to light for you is they're a part of our everyday life. I mean, they truly are. If I run out of one of my, my makeup pieces and it doesn't meet minimum on from Sephora, Ulta, you know, for shipping.

Um, where do I go? Go to Amazon and see if it gets under Prime? So the part of our everyday life, it's, it's a great tool to actually see as, as we lived through it as consumers.

[00:00:59] **Joya:** Absolutely. So their overall strategy is to sell everything and keep us totally ingrained in their ecosystem. But I think there's some viable questions to ask as we go through their business model that you, as a listener can ask yourself about your business and decide whether or not your business model can pivot based on what you've learned. So I guess we start where Amazon started, which was in Jeff Bezos's garage and he took, um, what was it? \$245,000 from his parents to start the company.

[00:01:31] **Kathie:** Well, I bet you, those parents are pretty proud right now. Pretty happy that they invested that \$245,000.

[00:01:38] **Joya:** And here's what I think is interesting. You know, Amazon launched in 1995. That was the year I graduated from college. It was the world's largest bookstore. What I think a lot of people don't realize is that Jeff Bezos was truly beta testing its sales infrastructure and its efficiencies, because books were just the gateway. His bigger plan was always that he was going to sell all the other things that we can now access on Amazon as well.

[00:02:07] **Kathie:** And he always, as part of this, he was always trying to figure out logistically how to get it to someone faster. Master more efficiently, more effectively and at the best price.

[00:02:17] **Joya:** So, you know, I think I, the big takeaway from, um, just, just from that first pivot away from books and to everything else under the clear blue sky, he realized that after he kind of put that beta test out there with books, people not only wanted their books, but they wanted to get their books as quickly as possible.

So if you're thinking about pivoting your business model, you got to figure out what truly matters to your consumer and then adjust your business based on those needs. And I think the other thing that he did was to look, my grandmother always says, is look beyond what people say they want and see what people need.

Yeah. Most people like you and I, if we were to order from, I don't know, Zappos, and it took five days to get here, we realize it's the cost of doing business. At least that's what we accepted, but Amazon's really raised the bar. And now it's like, well, we can get things to you quicker. So what if we tried that?

And what if we did that for everything?

[00:03:12] **Kathie:** You know, interestingly enough, um, I don't know if you realize this, but Amazon actually bought Zappos, and he bought them, because what happens is it was one another key category that they could get in there and understand the consumer. Um, and that turned into, you know, once again, you know, getting the shoes there overnight or within a short period of time, as well as returns without any questions.

[00:03:37] **Joya:** I think about McDonald's. Ostensibly, McDonald's is a fast food company, but really when you dig beneath the surface, McDonald's is a real estate company and food is what's sold at each of those places, but the infrastructure is truly around the real estate.

[00:03:52] **Kathie:** And the value. Really. If you take a look at their 10 K it's in the real estate, absolutely.

[00:03:58] **Joya:** And then I feel like the final thing from that first pivot from books to everything else is that Jeff Bezos is customer obsessed. Like he wants

to make sure that he can meet every single, basic human need that you have so that they can become indispensable.

[00:04:15] **Kathie:** You know, w what's interesting is if I don't know whether or not anyone has noticed this, but where we used to get things within a day, two days now in Amazon, there are times when we do not get it that quickly anymore, and that has to do with the supply chain.

But what they've done is because we are so much part of, uh, you know, they have so much equity in terms of satisfying us, going back to satisfaction we up. Okay. That's okay. They're going to get it. You know, we, we sort of give them, um, you know, the leeway to say it. We're not worried it's gonna get here.

[00:04:47] **Joya:** Yeah. All right. So now we're going to move to the next pivot, but when you look at Amazon's business model today, and I wish I could put this graphic up here on screen, but it's, you know, about 50%, 60% of its revenue stream comes from online, and that's followed up very quickly by third-party sellers. So if you don't like the garbage can, that Amazon is selling, you can go to a third party seller and get a different kind of garbage can, either way you're buying it through the Amazon marketplace, but that makes up 19% of their revenue pie.

And then the piece that follows that as Amazon web services. And we're going to get into that in just a minute, because right now we knew that they invested heavily in logistics, put a warehouse in every town cloud computing is the next pioneering frontier for them.

[00:05:32] **Kathie:** What's so interesting is if you understand the, um, the revenue students, they're all integrated, they're all part of an ecosystem that drives each other.

So having all of those really tied very closely into the, um, you know, the primary goal of the company makes a lot of sense. And that's why they're all growing.

[00:05:50] **Joya:** And I think a great example is the Kindle, right? So up until 2007, Amazon sold stuff, but they didn't really make anything, but they were like, well, if you're going to be reading books, we'd probably want to create the device that you're going to read the books on.

And again, it keeps you within that ecosystem. That is all things Amazon. So since then Amazon has pivoted to investing in technology, the Kindle, um,

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enhancing its logistics and customer service. Improving its web services, it's M & A strategy. I actually want to stop there because what does that mean? The M & A strategy?

[00:06:26] **Kathie:** It's mergers and acquisitions. And what they've done is because of the, um, propulsion of growth within all of those categories, they have had to go out and find ways that they could bring in people who were better at certain core components. Um, so the technology part that they will going to talk about the robotics, right?

They went out and bought someone who was really, you know, an expert at robotics and they put through robotics into their warehouses, I think 10,000 units to begin with. And now they're up to 45,000 units. But instead of building that, because that's not their core competency, they go out and they, they buy these, um, acquisitive, uh, companies.

[00:07:07] **Joya:** And the other piece, and I wanted to get into the patents before we get into some of the other areas, Amazon's aggressively been also filing for patents in different areas.

And what are some of the ones that are worth noting?

[00:07:19] **Kathie:** You know, first of all, let's talk about them. You know, they have over 14,000 patent applications. So they've got a whole field of individuals within their company that just is looking to put patents in place. Patents actually bring you competitive advantage because other people cannot do what you're doing if that patent is in place. So the patents get any be anywhere from patenting some cloud systems, I think the Kindle is also patented. We've got logistical components, which is huge right now. We know that. There's drone delivery. That was patented at one point in time. besides their operational component there's there is also, the augmented reality speech analysis, the Alexa, which we're going to talk about as well.

[00:08:01] **Joya:** Yeah. And the artificial intelligence is, is interesting to me. And the logistics is interesting to me because now Amazon is at the same level as a DHL and a FedEx.

They're competing in a space that they've never competed before, but they're still hell bent on becoming number one and filing for patents in that space, as well.

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[00:08:20] **Kathie:** And they've actually during this, this pandemic thing actually bawling out and bought, I think the number is 62 Boeing airplanes to logistically get, that they can go and pick up, the products that they need.

And, uh, they, they just invest. Now the challenge is if anyone were to go in and take a look at it is they really have not made a profit up until last year. Individuals would say, how can you do that? Well, what they did was they kept turning the cashflow, turning it as well.

[00:08:46] **Joya:** So at the core for anybody who's like interested in listening here, when we think about the Amazon business model at the core is Amazon, but one of the key cash cows is Prime because that keeps me mired in the ecosystem. I'm paying a subscription.

It means that I'm going to get things faster. I get things for free included, blah, blah, blah. Then there's the first party platform, which is. Oh, Hey, I can go and buy this garbage can, but it's an Amazon branded garbage can. If I don't like that one, I can go to a third party seller also hosted on the Amazon marketplace and I can buy, I don't know, garbage cans from Home Depot or some other third party seller.

There's the advertising element. And then there's Amazon web services. So the Kindle Jeff Bezos was like, well, if you're going to buy a bunch of books, why shouldn't you be able to store them on the cloud? And if you want to watch it on your iPad, hello, Apple product, you should be able to do that because everything is in the cloud.

[00:09:43] **Kathie:** And that is a very smart, I mean, what happens is he was always looking forward and I, when I say he, him and his team, absolutely. You know, what's next, what's ahead of that? What is trending and how to get in front of that and how did they beta test it in such a way that they know how to roll it out very quickly?

[00:10:00] **Joya:** You and I both read the Bezos letters. And one of the things that he said in his letters to shareholders is always be evolving, always be evolving. And I'm actually thinking about that in my own business as I'm moving forward. All right. Let's get into some of the patents and some of the acquisitions or different technologies that the company has been investing in.

What else do we need to know about the patents?

[00:10:20] **Kathie:** So the patents are, first of all, there you're 97%. They are grant rated at patent level, which means they absolutely know how to put the patents together to go and get them right off the bat. And then what happens is once they're applied there, what there's an abandonment rate and people say, you know, it's not that they're not turning their wheels.

They're literally doing the work, making it effective and making it work. So their abandonment rate is about two and a half percent, which is nothing compared to the 14,000 patents that they currently have. So with that, we know that there's a lot of cloud computing patent going on. We know that there's the augmented reality.

We've we've got Facebook looking at metaverse and you know that they're looking to change their name within the next week or so as well. Um, speech analysis, logistics, artificial intelligence, huge, huge, huge. And some of the patents we've got going on is media entertainment, and that certainly took off and you see it at the award shows over the last few months.

[00:11:20] **Joya:** Now let's talk about the technologies, the different technologies. And I'm going to ask you at each juncture. So if this is your list, you know, what was the strategy behind it? So Amazon robotics, we already know that Amazon's using robots in its warehouses, but what was the strategy behind that? Since that that's what we're focusing on this season?

[00:11:40] **Kathie:** I mean, they are growing at such a huge level of growth, that to get the amount of individuals to work from the staff and then to get them up to par as quickly as they needed, they needed to supplement that with robots, that also by having robots in place, what happens is they can actually digitalize what's going on, how fast, et cetera.

Um, you know, of course, robots may break down, but they don't break down from physicality that humans do as well.

[00:12:10] **Joya:** And then the next one, well, they actually acquired a company to your earlier point, Kiva systems, because they didn't want to get into the business of building robots, but they did acquire a company that designs the robots for picking and packing.

[00:12:22] **Kathie:** And that's what we mean by, by one of their strategy is you always stay within your core competency. You go out and you take a look. Who's the best in the field that you're looking to, to bring in as an operational excellence, marketing excellence? And they did that back in 2012.

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[00:12:36] **Joya:** All right, Amazon Alexa, Alexa is everywhere.

You and I were talking about the HBO show Succession. And there's a moment in time where Logan, uh, says to his company, I want to make sure all the Alexa devices in this house are off. So what was the strategy behind Amazon Alexa?

[00:12:52] **Kathie:** They really thought that the Amazon Alexa would be part of your life and it would help you become an assistant so that the Alexa customer assistant type of thing, sometimes we'll be in the kitchen. We'll be talking. That's where we have our Alexa and. All of a sudden it'll talk to us. And we're like, like, was that the right answer? Not the right answer or we're working on something. So they just wanted to make sure. And what they've really done, the new thing is FX everywhere strategy.

They want it all over the place. So not only in the Alexa components that they have actually developed, but they've gone out to other Echo, Echo Dot they've created different series of it. And now, from what I understand, BMW is going to be supporting the Alexa.

[00:13:34] **Joya:** So in other words, you're going to be able to what-- turn off like the thermostat at home from Alexa?

[00:13:39] **Kathie:** Yes. And I know people who have really figured it out. I'm going to say, I'm not as savvy. I'm probably at the 45% more, but there'll be like, go do this and oh, I can go do this. Um, you know, I can turn off the heat. I can put the stove on and there is components that allow it. So what happened is that when it become integrated, you start to depend on it.

You know, that, that it's, it's a component of your everyday life. Once again. Going back to what Jeff Bezos said he wanted to do for Amazon.

[00:14:10] **Joya:** Now, what I think is interesting is the Amazon Go strategy. The Amazon Go store basically allows you to walk in, fill up your cart, do a self checkout process. Everything is charged the same card that all of your Amazon purchases are charged to.

And you walk out the door if, if there was ever a call for the honor system, that sounds like it. What was the strategy behind this?

[00:14:30] **Kathie:** Well, literally, what if you notice they went onto the web e-commerce they started there and people said, oh my goodness, um, brick and

mortars are going to go away. Brick and mortars are not going away, but what they will do is become part of your ecosystem.

Um, what's interesting though, there's RFID codes on each one of those products. The minute you take it off the shelf, you put it into the basket, it gets recorded. So I don't think you can go in and just have a field day. That's not. What's so interesting is that these stores go in and go out, allows you to do without waiting in line without a lot of congestion at the checkout and once again, digitalizing your consumer experience for that.

[00:15:12] **Joya:** And I imagine with all the AI that's in place, and I'm sure Amazon is pretty smart about that. They're also being, getting very tuned in to the kinds of purchases that you make, so they can come back to you and retarget you with, Hey, I saw you bought this toothpaste.

What about this toothpaste?

[00:15:28] **Kathie:** And they do that all the time. I mean, I'm getting, you know, I get a lot of books from Amazon, you know, especially on my Kindle, I will tell you, they're like, oh, what about this book? And I, this week I've ordered two books and they've given me two other books that I thought would be great.

I'm like, I don't know how I can handle it just so I can put it in a folder, you know? So I don't forget.

[00:15:47] **Joya:** All right. We're finishing up with the Amazon entertainment. We know this is a behemoth because it's, the amoeba has gone from Prime Video to Amazon Studios to Prime Music. So what was the strategy behind this three-headed monster?

[00:16:00] **Kathie:** Well think about this. They've got 126 million Prime members. All right. In that they've already got the streaming going on. They got the Kindle going on, the digitalization of all of the, the content, you know, content digitalization, why not get back into where the, the market is going, and that is the streaming of all of this?

I will say the other thing that they did that in a May was they bought MGM. And not only did they buy MGM for the name they actually bought for all of the content as well. So what that does is it gives them a very fast and quick foundation to move on.

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[00:16:37] **Joya:** And they're also creating all of their own content. Now they're investing very heavily in that, which is probably why they haven't been profitable. But again, they're deferring to the experts that are already out there as opposed to trying to do it themselves. I think Prime Music is interesting because. At least in this regard, Amazon was a little late to the game.

Apple iTunes for the longest time was really the big player in the music space. And Prime Music is maybe a tertiary or a secondary app on my phone. If I need to listen to music, not my go-to, but what was the strategy behind this?

[00:17:11] **Kathie:** Well, literally it was about a one primary goal is to link the digital and brick and mortar shopping experience together.

And that would be your video streaming. You might as well be looking at the music component, which is a huge, huge business as well. And that has gone on for as far as I can go back 20 years that this started, um, it's, it's like a gift I will. I'm going to tell you very honestly, I'm really going to share I'm we'd be very vulnerable here when I started to put this together and.

I forget about Prime music and I just put together something off of Apple and I thought, well, that was silly. Why am I doing Apple when I can be doing Prime Music?

[00:17:48] **Joya:** So, what is our takeaway before we break here? You know, when you think about the Amazon business model and for anybody who's thinking about pivoting their own business model.

In fact, I got a question yesterday from, um, one of my members who is in consulting and she said, Joya, what do you think about me going from a boutique model, which is the regular pyramid to the leveraged model where there's more partners and few admin, she's like, I need to know what the pros and cons of that are.

So if someone's thinking about pivoting their business model, what would you say to them in closing?

[00:18:20] **Kathie:** I think you, you need to do what's right for you. Not every business model is right for everybody else. And that is really, really key here. The other thing is staying excited. Um, you know, I happen to be very excited about Amazon.

I love the way that they're, they're so motivated to create and the, and that's what you see here. They're always creating and then they're operationalizing and as well. So I think you have to stay excited in your business and that's key.

[00:18:47] **Joya:** I think one other thing I'll say I just finished reading Dorie Clark's book, *The Long Game*.

And one of the things that she talks about, and Jeff Bezos talks about this as well is allocating white space in your schedule to thinking about that 20%. What does that time that you're going to spend on the next risk you're going to take? Or what does that risk you're going to take on the next innovation or what is it that you're going to do strategically for the longterm of your business and really allocating that and being intentional about having that time in your schedule to do that innovation and give it that breath and with in your own calendar, to be able to have it realized?

[00:19:25] **Kathie:** And that's really important. I, um, I had a tough week as, as I shared with you and there wasn't a lot, there wasn't any white space, which makes it really tough, but what it did show for me that we sometimes hold ourselves back. Based on other people's expectations of us and especially women, uh, you know, and I even saw based on what I had to deal with this week, that, you know what we have so many opportunities, you know, marry yourself up with people like yourself and your leadership academy and, you know, listen and be open to it and enjoy life. It it's a spectacular.

[00:19:59] **Joya:** Kathie, if anyone wants to work with you, your business strategist, how do they get in touch with you?

[00:20:03] **Kathie:** They can give me a call straight at (609) 933-7600 or my email stuartkathie@gmail.com.

[00:20:13] **Joya:** And I am filling for my public speaking masterclass, which starts next Thursday.

I'm looking for two more women who are at an inflection point in their leadership. They need to show up and build a personal brand, but they're not quite sure how to tell stories about what makes them great, or maybe you're at an inflection point. Placed with your business and you need to be able to tell stories to set yourself apart in them, in the market.

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So I'm going to teach you how to do that. Enrollment is closing on Wednesday. So if you would like to email me, I'm at joya@joyadass.com. All right, Kathie, what are we talking about next week?

[00:20:48] **Kathie:** You know, what I'm I just read about, um, Sarah Blakely of Spanx and how she sold half of her company? I think we take a look at her strategy, her business model and how she got through all the naysayers and where she is today.

In fact, giving out a bunch of gifts to her, all of her workers. I'd like to enjoy that.

[00:21:07] **Joya:** I can't wait to hear it. We'll see you next week.

[00:21:09] **Kathie:** All right. Have a great week. Thank you.