ENTREPRENEURIAL *Genius*

THE POWER OF PASSION

GENE N. LANDRUM, Ph.D.

Jeffrey Bezos

Avoid Instant Gratification

b. Albuquerque, NM   January 12, 1964

"We intend to lose lots of money for a long time."

SELF-DESCRIPTION
"Work hard, have fun, make history."

MOTTOS
"Get Big Fast"–mantra on the way to the top
"Ideas are easy; it's execution that's hard."

INNOVATION "Our mission is to invent and innovate on behalf of our customers."

UNIQUE QUALITY	"Our secret is that we have not been competitor-obsessed. We have been customer-obsessed."
OBJECTIVE	In 2000 he was still saying, "This is day one. We're not even a teenager yet."
NET WORTH	$8 billion in 1999, down to $2 billion in 2001
HONORS	Person of the Year 1999 and "king of cybercommerce" (*Time* Magazine)
BIRTH ORDER	First born with younger brother and sister
EDUCATION	Stood first in his class at Miami Palmetto H. S. Graduated summa cum laude in Computer Science at Princeton and Phi Beta Kappa.
PERSONALITY	Bright, intensely competitive, intuitive perfectionist. "His personality is what has saved Amazon." (Spector 2000)
HOBBIES	Reading and playing computer games
POLITICS	Apolitical
RELIGION	Roman Catholic upbringing
FAMILY	Wife: Mackenzie, Children: son, Preston

11

Jeff Bezos

Avoid Instant Gratification

"Sacrifice the present for a better future."

Overview

In early 1994, when shopping on the Internet was virtually unknown, Jeff Bezos was a million-dollar-a-year Vice President of D. E. Shaw & Company in Manhattan, and the market for books was dominated by two bookstore chains–Barnes & Noble and Borders. Within four years, Amazon.com launched a web site that would effectively change the way people shopped for and purchased books. This revolutionary approach to bookselling threatened the dominance of the giant bookstores by offering the book-buying public greater convenience, faster service and even some previously unavailable information.

As Amazon.com expanded its product line from books to CDs and beyond, the Amazon web site became a model for e-commerce, an Internet-based shopping network that would enable consumers to purchase a variety of goods and services on-line while also gaining access to unprecedented amounts of information about the products.

Bezos, the gifted, nerdy wunderkind who grew up on Star Trek and science exploration, introduced the world to the power of the Internet as a vehicle for shopping, and in the process, fashioned Amazon.com into the dominant e-retailer in the world. His childhood dream of becoming an astronaut was never realized, but through his ability to use technology to sell, he has altered retailing more than anyone in history. The 30-year-old who quit a million-dollar-a-year job to chase a dream was a billionaire by the time he was 34.

The story of Jeff Bezos is a glowing example of what can be achieved if an individual is bright, driven, passionate, and tenacious. As the millennium approached, *Forbes* magazine waxed philosophical about Bezos saying, "Amazon is the first shining ray of the new commercial millennium. It's the shape of business in the next century." Biographer Robert Spector characterized him as "charismatic" and says he has the potential to be a cult leader on account of "an enormous amount of personal power."

In its first half-year of business in 1995, Amazon sold over $500,000 in books. In its second full year (1997) it had revenues of nearly $150 million–a substantial 300 times growth rate. By 1999, the industry had taken notice as the audacious start-up reached revenues of $1.6 billion. Amazon quickly got the attention of Barnes & Noble.

During those early years, Bezos flirted with bankruptcy often and was functionally insolvent much of the time. Jeff had not anticipated the astronomically high up-front costs that typically plague software development companies and Amazon chewed through cash as quickly as a hungry school of Amazonian piranhas. However, consumer acceptance encouraged his strategic marketing moves, though raising money to implement them continued to present a challenge. When web mania hit in 1997, Amazon was struggling to pay the bills. Bezos, always the consummate optimist, was shocked at the growth and admitted there were many times when the firm was 45 days from extinction. By 2001, Amazon had revenues of $2 billion on sales to 35 million registered customers. Revenues in 2002 were projected to reach $6 billion with no end in sight.

In spite of the remarkable growth of revenues and the customer base of Amazon.com, it lost increasing amounts of money in each of its first five years. These losses brought criticism from shareholders and those in financial circles who began to question whether Amazon.com would ever turn a profit. However, Bezos was not interested in short-term profit. Instead, he focused on expanding the use of technology to enhance the shopping experience and consumer choice. Amazon's adversaries have subsequently grown less vehement in their criticism, for at the time of this writing, Amazon is achieving profit margins comparable to that of Wal-Mart. David Ponneman, one of the financial analysts who believes in the Amazon dream wrote,

> *I believe Amazon has the potential to become one of the most successful retailers in the world.*

Having survived the recent pitch and toss of the stock markets in the seas of consumer confidence and fear, Bezos has bankrolled a company *Blue Origin LLC* dedicated to designing a spacecraft that will carry people into orbit at the edge of the earth's atmosphere. Bezos will have fulfilled his desire to live life on the edge–literally!

The Formative Years

Early Experiences

In 1962, with only two shirts and a pair of pants to his name, Miguel Bezos fled Castro's Cuba just before the Cuban missile crisis. His travels eventually took him to the University of Albuquerque where special scholarships were offered to Cuban refugees. To help support himself during his university years, he worked the night shift as a clerk at the Bank of New Mexico.

Meanwhile, on January 12, 1964, two weeks after she turned 17, Jackie Gise Jorgensen, a high school student in New Mexico, gave birth to a son Jeffrey Preston. Within 18 months, her marriage to husband Ted Jorgensen had ended and Jackie became a single mom and sole provider for her son. After graduating from a community college where she studied business, she was hired as a bookkeeper for the Bank of New Mexico. It was there that she and Miguel met and fell in love. They married in 1968 when Jeff was 4. Miguel adopted Jeff, thereby changing his legal name to Jeffrey Bezos. (Jeff never met his biological father and says that he regards Miguel as his *real* father.) Within the next two years, siblings Christina and Mark were born to Jackie and Miguel.

Miguel was a role model for Jeff and the person to whom Jeff's later obsession with work might be attributed. As Jeff Bezos later said of his father, "He is the least lazy person I know." Through hard work and intelligence, Miguel was able to work his way through college to become an Exxon executive. Miguel's job with Exxon often required the family to pick up roots and move.

As a precocious toddler of 3, Jeff insisted that he should have a bed instead of a crib, but Jackie denied his request. A short time later, his mother discovered him with screwdriver in hand, dismantling his crib and transforming it into a real bed. Jeff attended a Montessori pre-school where he became so engrossed in each project that he had to be picked up–chair and all–and moved to the next activity.

His elementary teachers in Houston, Texas, recognized immediately that Jeff was a gifted child. At age 8, he was enrolled in the pilot program for gifted students at River Oaks Elementary School. In one of his more ingenious moments, he and some fellow students used a modem to connect a teletype machine to a mainframe computer and used it to play a *Star Trek* game. On another occasion, he created a makeshift buzzer for his bedroom door to sound an alarm when his younger siblings trespassed on his territory.

Jeff became one of the prized exemplars for the gifted program at River Oaks. In 1977, his intelligence prompted author Julie Ray to feature Jeff as the subject of a chapter in a book she was writing, titled *Turning on Bright Minds: A Parent Looks at Gifted Education in Texas*. In it she described him as a bright student of "general intellectual excellence." However, his elementary teachers assessed him as "not particularly gifted in leadership." (Teachers of the exceptional tend to admire the intellect and creativity of their gifted students, but typically find them to be difficult because of their intolerance of conformity and their need to push against limits.)

The cyber-king loved science and adventure as a child. Jackie Bezos encouraged him with electronic do-it-yourself kits purchased from Radio Shack. While at River Oaks, he saw his first Infinity Cube–a cube with motorized mirrors that could be adjusted to create multiple reflections that appear to extend to infinity. The visual magic of the Infinity Cube ignited Jeff's imagination and he asked his mother to purchase the $20 item for him. When Jackie explained that this toy was too expensive, Jeff proceeded to purchase all the parts at a fraction of the price and assembled his own Infinity Cube. As Jeff commented at the time, "You have to be able to think…for yourself."

From age 4 to 16, Jeff spent each summer on his maternal grandfather's Lazy G ranch in Cotulla, Texas, about 90 miles west of San Antonio. Jeff's maternal grandfather, Preston Gise, proved to be an important mentor and hero for the precocious boy. Preston was retired from the Atomic Energy Commission where he had overseen a staff of 26,000 and administrated a large budget. Highly intelligent and hardworking, he introduced his beloved grandson to the world of high-tech. Together they invented contraptions such as an automatic gate opener that functioned without electricity. His grandfather, whom he later described as "his best friend," taught Jeff how to weld, to fix the D6 Caterpillar tractor and to castrate cattle. (One might say that they had established together a "geld-and-weld" operation.) Jackie would later say (Spector, p. 5):

> *One of the things [Jeff] learned [from the ranch experience] is that there really aren't any problems without solutions. Obstacles are only obstacles if you think they're obstacles. Otherwise, they're opportunities.*

Preston Gise also expanded Jeff's tolerance for failure by playing checkers with him and defeating him relentlessly, until the young protégé had sufficiently honed his skills to defeat the old man with regularity. Years later, Jeff would pay homage to his "best friend" and mentor by naming his son Preston.

Formal Education

After Jeff's elementary school years, the Bezos family moved to Pensacola, Florida and then on to Miami. Miami was the Latin city where twenty years before, Jeff's Cuban immigrant father had been lonely and broke. However, Miguel was now an executive at Exxon, and the Palmetto section of Miami where they bought their four-bedroom house was an upper middle class area. Palmetto High School, where Jeff enrolled, had been described as a school where the cars in the student parking lot outclassed those in the faculty lot.

Travel and moving had molded him into a self-sufficient adult who was comfortable with unknown environs. He later told a biographer (Spector, p. 35):

> *Moves always invigorated me. There's really something very cleansing about it. Every move is an opportunity for spring cleaning.*

A youngster faced with making new friends and dealing with strange new cultures learns to cope early. (Recall that Sam Walton also regarded his frequent moves in early life to have been an asset.) Later in life, when Jeff was out in front of the pack (as Jeff would become at Amazon), those early experiences paid substantial dividends in helping him survive the lonely loft at the top. It is not surprising that when Jeff Bezos encountered new opportunities years in e-commerce years later, he would quit and take off to work in a new city, an unknown market. He had no idea if he would ever again receive a paycheck. He had already traveled that same road as a child and found it exciting and empowering.

By high school, Jeff was already a techie who loved science fiction. As an avid fan of Star Trek, he was enamored with the idea of inhabiting outer space. His favorite book was *Stranger in a Strange Land* by science-fiction writer Robert Heinlein. Generally regarded as "uncool" by his classmates, he eventually abandoned attempts to fit in, choosing instead to hang out with a clique of the intellectually elite students. At Palmetto High

School, Jeff won the school's *Best Science Student* award in each of his sophomore, junior and senior years and the *Best Math Student* award in his junior and senior years. He served notice on his fellow students that he was planning on becoming the valedictorian of the class of 1982, and this promise became a reality when he stood first out of 680 students. His valedictorian speech spoke of colonizing space and he told the *Miami Herald* of his intention to build hotels and amusement parks there.

When Jeff was a junior at Palmetto High School, he met Ursula "Uschi" Werner, a senior, who became his first serious girlfriend. Ursula's strength was literature and they played the word game *Boggle* together, challenging the legitimacy of each other's words. Uschi was an intellectually stimulating companion for Jeff and when she graduated from Palmetto High in 1981, she was the valedictorian of her class. After graduation, she attended Duke University while Jeff continued into his senior year at Palmetto.

In the summer of 1982, Jeff and Ursula formed a business partnership in a summer-education camp that they named the DREAM Institute. (DREAM was an acronym derived from its full name, the Directed REAsoning Methods Institute). This Institute was located in Jeff's bedroom and had an enrollment of five students between grades 4 and 6. The parents paid $150 for each child for this two-week program that ran for three hours each morning. The curriculum involved a series of readings from books ranging from *David Copperfield* and *The Matchmaker* to *The Lord of the Rings* and *Dune*. When interviewed by the *Miami Herald* that summer, Jeff described the program in his own words, "We don't just teach them something. We ask them to apply it."

When it came time to prepare for college entry, Jeff applied only to Princeton University. His rationale was simple, "Einstein was there, for goodness sake!" He entered Princeton with impeccable scholastic credentials and majored in theoretical physics to follow in the footsteps of Albert Einstein and Stephen Hawking. However, a short time after arriving at Princeton, he discovered that for the first time in his life he was not the most gifted student in the class. Biographer Mark Leibovich reports an interesting turning point in the direction of Jeff Bezos' career path (Leibovich, p. 78):

> *One night during his freshman year, Bezos was struggling over a partial differential equation he had to complete for a quantum mechanics class. After a few hours of frustration, he and his study*

> *partner visited the dorm room of a classmate, who glanced at the equation and said, "Cosine."*
>
> *"After we expressed some incredulousness," Bezos says, "he proceeded to draw three pages of equations that flowed through and showed that it was cosine." It led to a realization: There were people whose brains were wired to process abstract concepts in a very graceful way, and Bezos was not one of those people. "It was initially devastating," he says, "very, very, troubling."*

This realization prompted him to re-direct his focus. He changed his major to electrical engineering and computer science. Once again, he excelled in the cognitive courses buttressed by abnormal intensity, competitiveness and a strong work ethic. He graduated summa cum laude in 1986 with a B.S.E. degree in electrical engineering and computer science and was subsequently elected to Phi Beta Kappa.

Before proceeding on to the next phase of Jeff Bezos' meteoric climb to success, we digress to observe that Bill Gates had experienced the same kind of "troubling" concerns in the rarified atmosphere of the exceptionally gifted. Describing his decision to abandon mathematics research as his career, Gates said (Wallace & Erickson, p. 64):

> *I met several people in the math department [at Harvard] who were quite a bit better than I was at math. It changed my view about going into math. You can persevere in the field of math and make incredible breakthroughs, but it probably discouraged me. It made the odds much longer that I could do some world-class thing.*

For the gifted who, in their formative years, have been identified by others and themselves as "the smartest" and elevated to the top of the intellectual totem, the prospect of living in the shadow of someone with greater gifts is intolerable. It's the scientist's version of the "mirror, mirror, on the wall" syndrome in the *Snow White* fantasy, and it is a theme that pervades the history of mathematics and science. The fierce competition among "the smartest and the best" has spawned many of the great discoveries from the invention of calculus to the discovery of DNA and the decoding of the human genome. Bezos and Gates are two highly gifted individuals who accommodated the challenge to their supremacy by focusing their energies in fields where their gifts could receive their most productive outlet. All of us have been the beneficiaries of their gifts.

The Climb to the Top

Beginning as an Employee

After graduation from Princeton in 1986, Jeff turned down employment offers from prestigious companies such as Bell Labs and Intel to become the eleventh employee at Fitel. This burgeoning young Manhattan company was pioneering the development of a computer-based global network designed to settle international equity transactions. The network operated as a primitive version of today's financial web sites like E*Trade. By 1987, Bezos was developing computer protocols that enabled different computers to share information at higher speeds and lower costs. Managing accounts in London, Tokyo, and Australia meant that Jeff was jet-setting around the world and learning about international markets at the tender age of 23.

In April 1988, Jeff left Fitel and joined Bankers Trust Company. Within the year, Jeff Bezos was made Vice President–the youngest vice president in its history. At Bankers Trust, he was responsible for managing a small programming department that designed a communications network called BTWorld. This network enabled its *Fortune 500* clients to access information on the assets, earnings and transactions of their pension and profit-sharing plans without waiting for hard-copy printouts. However, Jeff was becoming weary of what he referred to as "first-phase" automation–the use of technology merely to increase speed and efficiency. He was eager to pursue his real passion–"second-phase" automation–which he described as follows (Spector, p. 16):

> *[In second-phase automation], you fundamentally change the underlying business process and do things in a completely new way. So it's more of a revolution instead of an evolution.*

In Pursuit of Second-Phase Automation

In 1990, Bezos was introduced by a headhunter to David Shaw, founder of D. E. Shaw & Company, one of the most progressive computer-based financial trading firms in New York. David had a Ph.D. in computer science from Stanford and subsequently impressed Jeff with his intellect. Bezos would later say of Shaw (Spector, p. 18):

> *David Shaw is a very smart guy…He's one of the few people I know who has a fully developed left brain and a fully developed right brain.*

It was no surprise that Jeff Bezos was hired in December 1990, at the age of 26, as Vice President of D. E. Shaw & Co. Within two years, he became Senior Vice President. In his new capacity, Jeff was responsible for developing and managing a unit of 24 people dedicated to exploring and securing new markets.

Within a few short years, Jeff would implement many of the "people-management" practices that he witnessed at D.E. Shaw, for example, its high selectivity in hiring. Fewer than 1 percent of the mathematics and computer science applicants were hired at Shaw, and then only after successfully navigating a difficult ladder of interviews. Shaw once observed (Leibovich, p. 84):

> *We don't always recruit for specific positions. We're happy to warehouse a truly gifted individual on the assumption that they may someday make us money.*

The kinds of questions asked in the interviews reflect the climate of creative lateral thinking that D. E. Shaw valued and encouraged. Typically they involved what mathematicians referred to as Fermi questions (named in honor of the Nobel laureate physicist Enrico Fermi, who was famous for his order-of-magnitude problems. For example, the classic Fermi problem –how many piano tuners are there in Chicago?–requires some reasonable assumptions and order-of-magnitude estimates.) A similar culture had developed at Microsoft where prospective candidates were asked questions like, "Why are manholes and manhole covers round?" (Answer: If the cross section were a polygonal shape such as a square, rectangle or octagon, the cover could be dropped into the hole. The reader may wish to test this by cutting such shapes out of a piece of cardboard and then attempting to pass the cut-out through the hole that remains.)

The Search for a Mate

Jeffrey Preston Bezos applied creative lateral thinking to all aspects of his life including his search for a significant other. In Manhattan, he adopted a system of screening potential partners called "women flow"–perusing a sufficient quantity of women, he would increase the probabilities that he would meet one with whom he could have a meaningful relationship. He articulated this intent in a manner that would be most readily understood by a fellow "mathie" (Spector, p. 19):

> *The number one criterion was that I wanted a woman who could get me out of a Third World Prison…Life's too short to hang out with people who are not resourceful.*

Ironically, his "women flow" system turned up a woman who worked right under his nose at D. E. Shaw. Mackenzie Tuttle was an attractive, svelte brunette who was a researcher in Jeff's unit. She was also a graduate of Princeton from the class of '92. It didn't take long for the physical chemistry of love to play out its natural laws, and Jeff and Mackenzie were married in 1993.

The Internet Comes of Age

In an ironic twist, 1993 was the same year that the World Wide Web came on line. It had evolved from the response, in 1959, of the Defense Agency Research Projects Administration (DARPA) to the launching of the Soviet *Sputnik*. DARPA created a communications network designed to connect all levels of the military and government in the event of a nuclear attack. Curiously, one of its key employees was Preston Gise, the grandfather who served as mentor to Jeff Bezos. By 1969, this network had evolved into ARPAnet and by the 1970s it had become NSFnet, a network connecting universities and funded by the National Science Foundation. In 1990, the National Science Foundation established an "acceptable-use policy" that provided guidelines for the commercial use of the network. This enabled the creation of Internet service providers (ISPs) such as NETCOM, BBN and MCI to set up their own transmission lines and provide access to businesses and individuals. The Internet was born.

Then Tim Berners-Lee, a researcher at the European Center for Nuclear Research (acronym CERN) in Geneva, Switzerland, then created some computer protocols that enabled users to browse the Internet with simple point-and-click commands. By clicking on highlighted sights, called *hyperlinks*, the user could navigate through the network of different sites distributed throughout the world. The World Wide Web was born. The final piece of the Internet mosaic was put in place in October 1993 when Marc Andreesen and some of his students at the University of Illinois introduced a Web browser called Mosaic. It was specifically designed to retrieve information from the Web using graphics. The commercial potential of the Internet was beginning to emerge.

The Bezos Vision

Jeff Bezos is an astute observer of market opportunities. When his boss at D. E. Shaw asked him to research the web as a potential investment opportunity, he was consumed by the possibilities. He took a more incisive look at the potential for e-retailing relative to product potential, price points, margins, pervasiveness and cutting edge plus target markets and demand. He intuitively felt that products like PCs, computer software, music, apparel, books, and office supplies would be best. Then he narrowed the search down to music and books. There were three million books in print and they were conducive to on-line research and display. Bezos discovered that the market sector in 1994 consisted of the *early adopters*, i.e., the types who dominated Internet sites and were also the book buyers. However, this sector constituted only 16 percent of the general population. Today only 16 percent of Americans–the sector consisting of the *laggards*–are not on-line.

In the Bezos analysis, books emerged as the top choice for Internet marketing. Books showed the greatest potential for sales and were easiest and least costly to warehouse and ship. Experience has supported his analysis. However, at this point, Jeff did what most entrepreneurs do when they make such a discovery–he told his boss. Predictably, his boss told him to go back to work where he was effective and to stop chasing fantasy rainbows. Not easily dissuaded, Jeff persisted in analyzing the potential for mass distribution of books through some new "second-phase" automation. His unrelenting research revealed that just six firms controlled the music industry and no firm dominated the book business. Random House was the largest publisher, although with less than a 10 percent market share. The two dominant book retailers were Barnes & Noble and Borders, but each held less than a 25 percent share of the $30-billion market. In 1994 over 51 million books were sold in the United States. Furthermore, Jeff's research revealed that Web usage was growing at the rate of 2300 percent per year. He understood the concept of exponential growth and its implications. He stated with characteristic enthusiasm (Spector, p. 25):

> *You have to keep in mind that human beings aren't good at understanding exponential growth…It's just not something we see in our everyday life. But things don't grow this fast outside of petri dishes. It just doesn't happen. [Something that is growing 2300 percent a year] is invisible today and ubiquitous tomorrow.*

Jeff Bezos envisioned tapping into all the books in print and offering them all on-line direct. No one else could do that in 1994. Such an edge would be dramatic and real-time. It had staggering implications.
Shortly after Jeff's idea to sell books on-line was rejected, he approached David Shaw to say that he was going to resign in order to pursue his dream in setting up a huge on-line bookstore. Shaw told him that on-line bookselling was a great idea, but for someone else who did not already have a great job with a seven-figure income. David Shaw was reluctant to lose Jeff and attempted to persuade him to stay. However, Jeff decided to be guided in his decision by what he termed his "regret-minimization framework." He explained this guiding principle in his own words (Spector, p. 31):

> *I knew that when I was eighty there was no chance that I would regret having walked away from my 1994 Wall Street bonus in the middle of the year…But I did think there was a chance that I might regret significantly not participating in this thing called the Internet, that I believed passionately in. I also knew that if I had tried and failed, I wouldn't regret that. So, once I thought about it that way, it became incredibly easy to make that decision.*

So, Jeff Bezos quit his job that paid about $1 million per year in mid-1994. He told his new wife Mackenzie that they were moving west but didn't know where. He then called Moishe's Moving Company and told them to take the furniture, drive west on I-80 and before they reached Dallas he would call them and tell them where to take their furniture. Bizarre? Perhaps. Such behavior was consistent with the Bezos analytical style. He had analyzed, by state, the sales tax on books and discerned that the best places for such a venture relative to taxes, shipping and a host of other variables were New Mexico, Colorado, Nevada, Oregon or Washington. He worked on his business plan while his new wife drove and he ultimately decided on Seattle because his friend, Nick Hanauer, had told Jeff that Seattle was the center of the universe and also that he wanted to invest in Jeff's new Internet business.

Sleepless in Seattle

While en route west, Jeff and Mackenzie agreed that Seattle would be their new home. Jeff gave Moishe's moving van directions to Nick Hanauer's house where the furniture was to be delivered. There was no time to waste, so Jeff stayed on his cell phone during the journey and set up the logistics for creating this new second-phase automation company that he believed would revolutionize bookselling. By July 5, 1994, this new company was incorporated in the state of Washington as Cadabra Inc.–as in Abracadabra. Within a week after arriving at Nick's house, Jeff and Mackenzie rented a modest home in Bellevue. It had a garage that would serve as Cadabra's first office and warehouse.

Jeff provided the start-up finances for Cadabra out of money he had saved from his employment at D. E. Shaw & Company. In his capacity as founder, chairman of the board and CEO of this one-man corporation, Jeff purchased 10,200,000 shares of common stock for $10,000 and contributed a $15,000 interest-free loan to the company. (This total infusion of $25,000 was subsequently increased by an additional loan of $29,000 in November, 1994.)

In the weeks that followed, Jeff went on a frenetic search for brilliant employees who would help him turn his dream into a reality. Following the principle of hiring only the best–a lesson well learned from D.E. Shaw & Company–Jeff began building networks from contacts he had established at D.E. Shaw, at Princeton, and in other centers that attracted talented people. By November of 1994, Jeff's rigorous hiring techniques and his remarkable skills of persuasion resulted in a nucleus of three gifted individuals who would fuel and grow the company: Shel Kaphan, Paul Barton-Davis, and himself. Mackenzie Bezos improvised as accountant, secretary and office manager.

Between November 1994 and February 1995, Bezos worked relentlessly, sleeping very little and scrambling to create software that would facilitate the ordering of books by e-mail or the Internet. Cadabra was not the first company to sell books on line. Computer Literacy Bookshops in the Silicon Valley had been selling books by e-mail to its customers as early as 1991 and other companies, such as WordsWorth in Cambridge, Massachusetts, had launched a similar initiative. Jeff realized it would not be long before the giants like Barnes & Noble would enter the market and undercut all its competitors with the advantage of large-volume discounts. If Cadabra was to beat the competition, it would have to get big fast–very big and very fast!

The Amazon River is the biggest river in the world. What excited Jeff Bezos was that it was "10 times larger [by volume] than the next biggest river." Jeff wanted his company to be Amazonian, i.e., 10 times the size of the next largest competitor. On February 9, 1995, he registered Cadabra as a corporation in the state of Delaware and named it *Amazon.com* Inc. This name not only signaled Jeff's intention to grow exponentially, but it also possessed that advantage that it started with the letter A, which would place it at the top of lists that were posted alphabetically. While "Abracadabra" and "Aardvark" would have had even greater lexicographical advantage, neither moniker would capture the gargantuan proportions of Jeff's dream.

Funding to Get Big Fast

Amazon.com's initial seed monies of $54,000 came out of Bezos' pocket. However, that money was quickly consumed in start-up personal survival expenses. After Amazon.com was incorporated, there was an urgent need for another injection of liquidity. The sale to Jeff's father of 582,528 shares of common stock @ $0.1717 per share brought approximately $100,000 into the coffers of Amazon.com and guaranteed its survival for at least another six months.

After this infusion of capital, Amazon.com was able to continue in its quest to get big fast. To do this, it worked feverishly to build the world's largest database of books by tapping into Bowker's *Books in Print* CD, and the book lists from Baker & Taylor and Ingram distributors. Thousands of hours were spent on the development and beta-testing of their web site, its user interface, and order tracking mechanisms. Finally, on July 16, 1995, the Amazon.com web site was launched. This web page was modest by current standards because elaborate visuals took too long to load and the page was designed for function more than form. The philosophy at Amazon.com was: keep the shopping process fast and simple–an approach now described as *frictionless shopping*.

For the first few days following the posting of the web site, orders from friends and relatives trickled in. In an attempt to build morale at Amazon.com, the order-taking software was modified so that the computer would sound a beep each time a new order was received. At first, this device was a pleasant novelty, but as the orders began to arrive fast and furiously, the incessant beeps had to be silenced by a re-jigging of the software. Three days after the web site was launched, Yahoo included the Amazon.com web site on their browser. The resulting explosion in sales was described as similar to "taking a sip through a fire hose."

The downside of this phenomenal growth was the inevitable crisis in liquidity. Servicing orders immediately requires large inventories, which implies a huge capital investment. Eric Dillon, a stock broker for Smith Barney in Seattle, observed (Spector, p 84):

> *Jeff was "dead broke" in that summer of 1995…He was out of his personal funds, he was out of his family's ability [to fund the company], and he was [going to be] out of money in 45 days.*

That was when Jeff Bezos put together a PPM prospectus and began looking for "angel" money (i.e., small amounts of venture capital invested in small start-up companies with potential). By the end of 1995, he had raised $981,000 from an assorted collection of twenty or so venture capitalists. With net sales of $511,000 in that first half-year, Amazon actually sustained a loss of $303,000.

Silicon Valley, which spawned the Internet, is the Mecca of money for start-ups. It is a go-go type of environment where even conservative investors get caught up in the mania of potential opportunities outside the mainstream. Amazon was in Seattle but decided to go to the Valley to find venture capital. Jeff ignored the courting of Seattle and East Coast firms and concentrated his efforts in Silicon Valley. In Jeff's opinion, the war of the web would be understood there better than anywhere. Furthermore, Bezos was obsessive in his commitment to deal only with the best in any enterprise. His first choice was Kleiner, Perkins, Caulfield & Byers, headed by web avatar John Doerr. This firm had successfully launched industry stalwarts Netscape, Intuit, Sun Microsystems, and Compaq.

In the spring of 1996, Kleiner, Perkins *et al.* agreed to a $60-million valuation of Amazon.com, purchasing 3,401,376 shares @ 2.35 per share for a total cash investment of $8 million. This gave Kleiner ownership of 13 percent of the company. It also provided enough seed monies to take Amazon to the next level. Marc Andreesen, co-founder of Netscape, became interested and he and Bezos got to know each other. The two entrepreneurs had a similar view of profitability and both supported the Bezos thesis of growth now and profitability later. Andreesen said (Spector, p. 96):

> *One of the fundamental lessons is that market share now equals revenue later, and if you don't have market share now, you are not going to have revenue later.*

In May 1996, the *Wall Street Journal* featured Amazon.com on its front page. Not only did this promote the Amazon web site, but it alerted the competition, Barnes & Noble. Subsequently it began its own on-line web site, *barnesandnoble.com.* Through 1996 and 1997, although Amazon's sales growth was exponential, investors were skeptical about its ability to compete with the giant Barnes & Noble. Investment bankers were able to raise another $20 million in venture capital for Amazon.com, but not without many months of cajoling. In 1996, Amazon's first full year of business, its net sales had increased to $15.7 million–a staggering 30 times the previous half-year–but it had lost $5.8 million!

On May 15, 1997, Amazon issued an IPO with an opening share price of $18. This meant that Jeff's ownership of 9.88 million shares gave him a personal net worth (at age 33) of $177.8 million–in less than three years after incorporation! Through the IPO, Amazon raised another $35 million, and within a year was selling for $100 a share. With money limitations no longer a barrier, Amazon.com began promoting its web site and sales went through the roof. Managing the growth replaced chasing money as the primary focus of the Amazon management team.

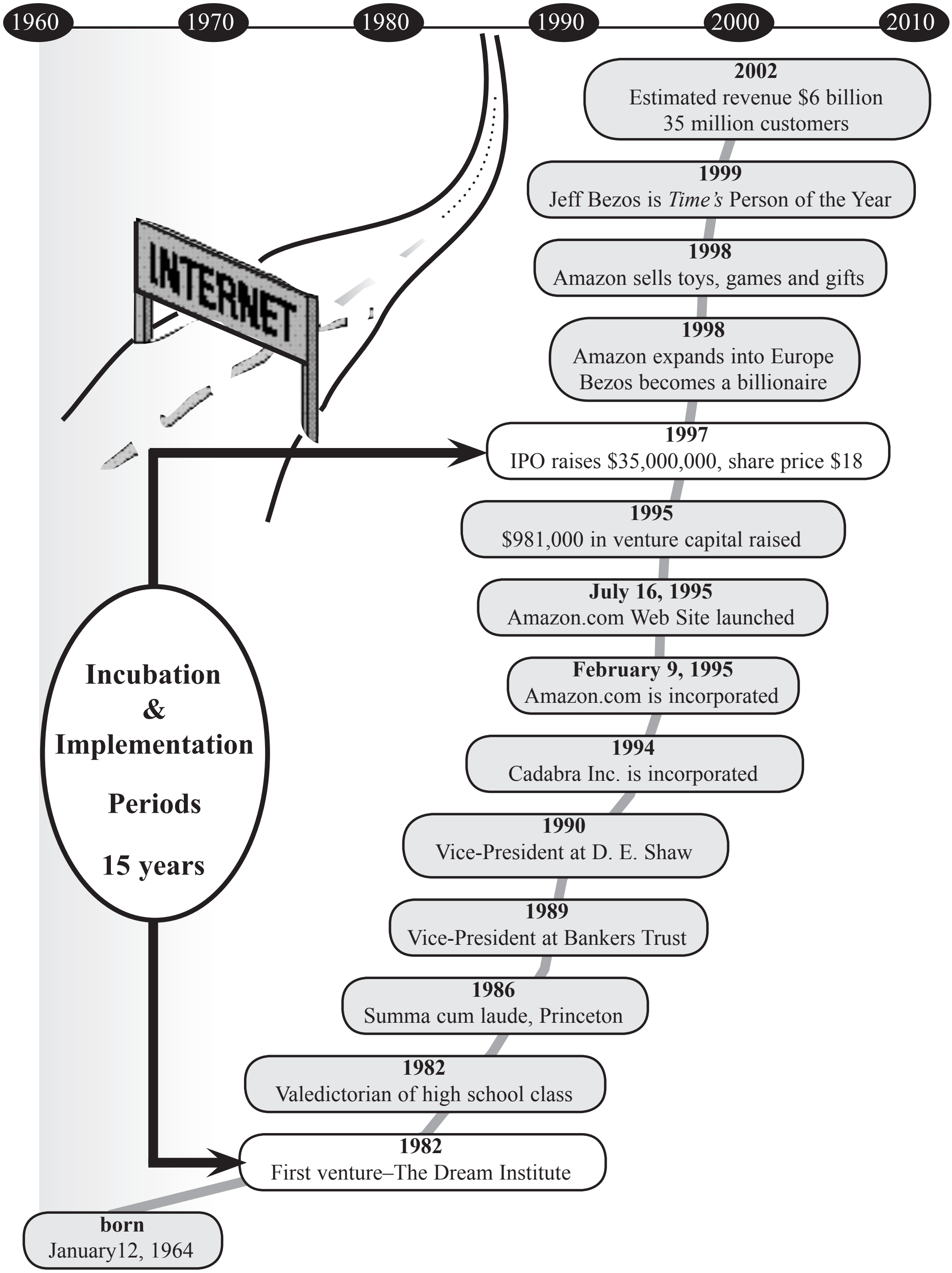
After Jeff had all but conquered the world of books, he was incapable of resting on his laurels or his sailboat. Entrepreneurs like Jeff seldom stop chasing their dreams, which is why they are often called "serial-entrepreneurs." Unlike Alexander the Great, Jeff still had worlds to conquer–the world of books was only stage 1 in his grand plan. In June of 1997 he launched a music site to sell CDs and DVDs. By October of that year, Amazon was the largest seller of CDs with 130,000 titles. In 1998 the restless visionary began selling toys, games, software, and gifts. He had also expanded Amazon.com into Europe with Amazon.co.uk (Great Britain) and Amazon.co.de (Germany). The share price of the stock closed at $259 on December 1998–up over 1400 percent in 18 months! By 1999 he had expanded into consumer electronics, sporting goods, jewelry and leather goods.

The New Economy

Even though Amazon.com was continuing to hemorrhage money, the investors continued to drive up its share price, believing that the economy was undergoing a paradigm shift in which old systems of valuation were becoming obsolete. Many financial pundits were suggesting that the infrastructures created by the dot-com companies would eventually bear fruit in the form of generous profits. The adage was: grow fast now and profits will eventually accrue. As the millennium came to a close, price:earnings ratios were no longer considered viable measures of a dot-com company as a prospective investment. By the end of 1998, Amazon had net sales of $610 million on its books alone, but it lost $124 million from the bottom line. When the stock market turned bearish in early 2000, the share values of Internet stocks plummeted. The bear market deepened throughout 2001 and 2002 and share prices continued their sharp declines. By May 2001, the price of Amazon.com shares had declined to only 15 percent of their high in December 1999.

In its first six years, Amazon had lost over a billion dollars. Financial conservatives painted Bezos as more pariah than creative genius. He had lost $1 billion on over $2 billion in sales. Wall Street deemed this an insidious waste. Amazon was presented in the news as the darling of the new economy that had gone wild and then gone bust. The financial gurus saw him as either the world's greatest salesman and visionary or a hopeless optimist. Bezos had told everyone who would listen that profits would not come quickly. He told his mother, "You will lose your money so consider it gone." He told Wall Street, "*USA Today* took eleven years to become profitable." From half a million in sales in 1995, Amazon.com was on track for sales revenues of $6 billion in 2002 and set the horizons for $10 billion in a few years. By mid 2003, Amazon had achieved profit margins comparable to those of Wal-Mart and Jeff was flying high with his investment in *Blue Origin*, a company dedicated to designing a spacecraft to carry passengers in orbit around the earth.

Bezos' Decade-by-Decade Climb



A Personality Profile

Communication Style: Playful College Nerd

Most of us communicate with words; Jeff Bezos communicates with a laugh. It's an infectious laugh that identifies Jeff as precisely as his fingerprint or his DNA. Biographer Robert Spector's description of the Bezos laugh captures its essence as well as anything short of an actual audio rendition (Spector, pp. 183):

> *...That laugh; that now-legendary laugh. "Explosive," said* Business Week*; "an infectious, gulp-from-the-throat laugh,*" *wrote* Fortune*; "a long extended bray, startling the uninitiated," waxed* Wired*; "It's a Tourett-like AHHHH ha ha ha ha bray," wrote* Newsweek*; "A rapid honk that sounds like a flock of Canadian geese on nitrous oxide," trumpeted* Time*. "His laugh is a whole-body noise that his mother says 'starts at his little toe and works its way up,'" said the* Seattle Times*. "In fact, he laughs so frequently it seems trained more to his internal sense of rhythm than to the conversation at hand."*

This laugh is an integral part of the nerdy college-kid persona that Jeff conveys in his communication with people. He is affable, playful, fun-loving, brilliant–and yet intensely focused on his vision of e-commerce.

The Bezos powers of persuasion are formidable and derive from the openness, passion and electric energy that he communicates. He used these persuasive powers to recruit Shel Kaphan and Paul Barton-Davis, two first-rate computer people, to abandon high-paying secure positions to help him build Amazon.com. He also used his charm to lure Joy Covey from the Silicon Valley to Seattle where she helped put the financial affairs of Amazon.com in order. The persuasive nature of Jeff's personality has been a major factor in the success and the survival of Amazon.com.

When the Amazon.com web site was launched in July 1995, the web page claimed that this fledgling company was the "Earth's Biggest Bookstore." This brazen assertion belied the fact that the firm wasn't even a bookstore and was never intended to be. A single Barnes & Noble bookstore had more books on its shelves than Amazon had in its warehouse. Grandiose claims and what Trump would call "innocent hyperbole" defined the Bezos approach to promotion. To Jeff it was important that Amazon was perceived as larger-than-life and all promotions were aimed at creating the illusion of magnitude. Appearance was critical to his future so he had to look like a major player long before he was one. The promotions took advantage of consumer ignorance. Most book buyers weren't aware that by 1997, they could order any book in print on-line through barnesandnoble.com. By the end of the millennium, Jeff Bezos and Amazon.com had become inextricably identified with shopping in cyberspace.

Intuitional Style: Ready, Fire, Steer

When Jeff Bezos quit his job in 1994 to follow his dream, most observers would have predicted a quick demise. His early business plans were intuitive and quantitatively imprecise. His financial plans could best be described as seat-of-the-pants-with-a-high-probability-of-losing-his-shirt. Practicing a highly frugal approach to expenditure, Amazon.com moved from garage to garage and then from warehouse to warehouse as the need for storage space increased.

The Amazon web site was developed in a similar by-gosh-by-golly fashion, characterized by a succession of trials and errors. This was an inevitable consequence of the fact that Amazon was sailing into uncharted waters with limited financial and human resources. Between 1995 and 1998, Amazon.com was in a predominantly reactive mode, responding to crises by redesigning software, rejigging processes, and compensating customers when systems failed. This style of business planning became known as "ready, fire, steer," compared with the traditional "ready, aim, fire." Jeff argued that getting too involved with "aiming" would ultimately stunt innovation. In the rush to get big fast, there was neither the time nor the resources to invest in detailed planning. What Jeff had was an idea and an instinct that would guide him through the turbulent, uncharted waters, and this became the style at Amazon.

The financial establishment would later express incredulity at his indifference to money. When the financial press tore him apart for losing money, he ignored their criticism. Finally he told the *U.S. News & World Report* (Feb. 2000) "It would be a terrible management mistake to be profitable now." His logic was lost on the masses and the self-serving classes, but Jeff Bezos continued to follow his instincts, with great success, into the new millennium.

Creativity: Obstacles are Opportunities

On occasion, the affable, ebullient boy wonder, Jeff Bezos, would display a Machiavellian bent. In the beta testing of their new web site, it was necessary to emulate a real-world situation in which a customer logs on, buys, pays for, and has delivered a chosen product. Jeff didn't have the available funds to engage an outside company to conduct a standard beta-testing research project. Therefore, he decided to test the system by using friends and family. The purchase of a single book presented a problem because the two giant distributors Ingram and Baker & Taylor adamantly refused to sell him just one book. As wholesalers, they insisted on a minimum shipping order of ten books. Undaunted, Bezos discovered that both distributors had an obscure book on lichens in their catalog, but it was out of print. So Jeff ordered the book he wanted plus nine copies of the book on lichens. The single book he wanted was shipped and the nine copies were placed on backorder and then subsequently dropped. Thus, Amazon.com found a creative solution to its beta-testing problem.

Using "innocent hyperbole," the Amazon.com web site claimed Amazon.com was "Earth's Biggest Bookstore." In response to this claim, Barnes & Noble launched a lawsuit claiming false representation on the basis that Amazon.com was not really a bookstore. Amazon.com countersued on the basis that by failing to charge sales taxes on books sold through barnesandnoble.com they were gaining unlawful advantage over Amazon.com. Both lawsuits were subsequently settled out of court. Bezos had found a weakness and it saved him. When asked about the lawsuit, Bezos said, "Frankly, I'm more concerned about two guys in a garage [than competition from the giants]." As grandpa Gise had taught him, there are no obstacles–if you are creative.

Risk-Taking Propensity: Swing for the Fences

Risk-takers are comfortable with ambiguity. They are special in that they get an "adrenaline rush," rather than a rush to the exit, when the going gets tough. When *Success* asked Bezos about his high-wire act in e-commerce, he responded, "High wire has never seemed impossible to me." Testimony to this was his ability to abandon a stable seven-figure income and pursue an entrepreneurial dream that threatened poverty from the outset. Few people have the temperament to get married and then quit their job a month later for some mysterious opportunity in a cyber-netherland. However, entrepreneurs are so inclined; the other 90 percent of the population are not. How did Bezos personally deal with the decision? He first looked deep within his soul and asked himself if this life was to be his destiny. In typical Bezos fashion, he formulated the dilemma as a strategic opportunity with both an upside and a downside and weighed the two using a process he labeled "regret-minimization framework." The strategic life opportunity as expressed in Bezos' words was, "If you feel you will one day regret not taking a chance, then take that chance." He took the chance, but with much reflection on what he would think when he was eighty-five.

What Bezos did was look at the risk of his move. The answer turned out that in his mind the greater risk–to his psyche–was in not doing it. That is the mindset of most great entrepreneurs. The risk seen by others is not perceived to them as a risk. They operate outside conventional sensitivity for risk-taking. The propensity for risk-taking is perhaps the key defining difference between leaders and followers.

Once Bezos was on the precipice of entrepreneurship, where risk and reward scenarios are played out daily, he knew he had to find people with a similar penchant for risk-taking. A potential executive who wasn't willing to live on the edge wasn't hired. Jeff told everyone, "We are swinging for the fences at Amazon. You should expect mistakes." No one was swinging for the fences more than he, since he had bet his marriage, savings, job and lifestyle on his dream in a strange new city and in a brand new industry.

Intensity: Maniacally Focused

Though "hurry, hurry, hurry," is a theme common to the entrepreneurs profiled in this book and elsewhere, nowhere is the issue of time more critical than in the realm of cyberspace applications. Jeff Bezos had a vision of what he wanted to achieve, and that vision came with an intense urgency that he himself articulated to *Success* magazine (July 1998):

> *In high-growth arenas, speed is essential and a sense of urgency becomes your most valuable asset.*

Business Week described Bezos as "hyperkinetic." Virtually every great entrepreneur is in a perpetual hurry. Speed is their master and in Michael Dell's words, "There are only the quick and the dead." The Bezos mantra was: "Work hard, have fun, and make history. Wake up petrified and afraid every morning. I know we can lose it all. It's not a fear. It's a fact." Bezos is fiercely competitive and never takes the moderate route in any endeavor. During the early years, he wore every hat in the organization and seldom left the office. Dana Brown, head of ordering, often worked through the night ordering books. When the orders were finally transmitted at 4:30 in the morning, no one else was there except Jeff. She admitted to working 15 to 18 hours a day and told the media, "Jeff was always there. I never saw him go home."

Nick Hanauer said of Jeff (Spector, p. 230):

> *[He is] the most single-mindedly focused person I've ever met–to his detriment; it's all he cares about. He lives, eats, breathes Amazon.com. It occupies virtually his every waking moment. He is maniacally focused. I worry about his health. I worry about what he's going to be like when he's 50.*

One worker at Amazon.com observed, "The attitude is, you can work long, hard, and well. At Amazon two out of three won't work." It seems that Jeff Bezos' maniacal focus had permeated the entire work environment at his brainchild company.

Self-Image: Strong Belief in Himself

One ex-Amazon employee told the media, "Jeff Bezos believes that the prospect of failure is incomprehensible." His willingness to stake everything on his dream shows the magnitude of his self-confidence. When Seattle attorney Tom Alberg was asked to consider investing in Amazon.com, he refused, but was so impressed with Jeff he took a seat on the Board of Directors. Bezos' infectious and optimistic persona was what drew Alberg to be part of the team. However, Alberg didn't invest because he believed that Amazon didn't stand a chance against the giant Barnes & Noble. He had said, "When they launch their web site they will crush Amazon." However, the ever-confident Bezos was not dissuaded and continued his onslaught until Alberg had to capitulate or leave. He stayed and invested. Jeff's strong belief in himself and his abilities to solve problems as they arise manifests as a self-confidence that inspires confidence in others. This inner confidence is an important dimension of his magically persuasive personality.

Eccentricities and Personal Paradoxes

The *New York Times Magazine* described Bezos as a "brilliant, charming, hyper and misleadingly goofy mastermind." As "poster child for internet commerce," as he is widely described, Jeff Bezos has cultivated the persona of an eccentric nerd whose brilliance is manifest in his weird laugh; his good-natured, self-deprecating affability; and his trappings of middle class impecuniosity.

There is a legion of stories about Jeff's frugality and his absent-minded professorial approach to business that belie his billionaire status and portray him as a middle-class cult figure. Among these is the story of Jeff's admonition, "We have a strong focus to spend money on things that matter to customers and not spend money on us." To this end, he constructed his own desk out of an 80-pound particle board door to which he attached four makeshift legs. The other office furniture was obtained from auctions or garage sales. He even suggested that small stickers be placed on such furniture to indicate how much was saved in its purchase. Bezos used his door-desk as a symbol of the frugality that Amazon.com practiced to preserve its focus on customer service.

Like Sam Walton, he flaunted his "everyman" image by driving a modest vehicle–for Walton, it was a truck; for Bezos it was a Honda Accord. There is an apparent contradiction between the external persona of Jeff as the child-like, goofy nerd who seems oblivious to the trappings of wealth, and the reality of the intensely-driven entrepreneur who strives with unrelenting focus to dominate all aspects of e-commerce in colossal Amazonian fashion. Leibovich observed (p. 91):

> *Bezos said he wanted Amazon to be an "intense" and "friendly" company, but he'd much sooner give up "friendly" than "intense."*

Perhaps one of the clearest insights into the multi-dimensional nature of the Bezos personality is captured by Mark Leibovich's description of a lunch he had with Jeff Bezos in June of 2001 in an Indian restaurant in Manhattan (Leibovich, pp. 102–3):

> *[After we finished our meal,] the waiter came over with a tray of hot washcloths. Bezos grabbed one, unwrapped it, and worked it furiously over his hands and face. And he couldn't stop. He ran the washcloth up and over his forehead, into his hair, down the back of his neck. He placed it under the front of his shirt…massaged the top of his chest, then his left armpit. He grunted slightly. People from other tables stared, but Bezos was oblivious.…His eyes were closed and his head bobbed up and down. He discarded the washcloth onto the table with a satisfied flip. He left it with no regrets, sapped dry, as he rushed outside to a limousine that was waiting for him.*

ACHIEVEMENTS & HONORS

Magnitude of Success

When Bezos launched Amazon.com in July 1995, few expected him to survive, let alone become the dominant bookseller in the world. As a young man of 30, he gave up a seven-figure income on Wall Street and then put up $300,000 of family money to back his vision. Never one to sweat the small stuff, he went aggressively after Barnes & Noble and Borders. Few people of sane mind would have put up such money in a battle with giant booksellers.

By late 2001, Amazon had grown from zero customers in 1994 to over 35 million. Many were repeat customers, proving that the services were valued enough to guarantee future sales. Though sales for books and CDs have flattened in 2002, Amazon.com has branched into so many product arenas that it has become the largest on-line retailer in the world by far, with 40 to 50 million customers. It has approximately 15 million site visits per month compared with 6 million at the chief competitor, Barnes & Noble. With sales revenues approaching $6 billion, Amazon is exceeding its growth and revenue targets and is finally generating the long-awaited profits for its shareholders. The following table shows its remarkable exponential growth from its inception to the end of the millennium.

Year	Revenue	Loss
1995	$511,000	$303,000
1996	$15,700,000	$5,800,000
1997	$147,800,000	$35,500,000
1998	$610,000,000	$124,500,000
1999	$1,640,000,000	$350,000,000

The media has not let Jeff Bezos forget that the stock market made him a billionaire long before he has returned a profit to his investors. But the billions he is worth are as tentative as the fluctuating market. Investor pessimism can stifle growth and liquidity, thereby threatening the survival of his company. Through it all, Jeff Bezos has stayed focused on the long term. He implores impatient investors to remember that Amazon.com is in its infancy and that "it's not yet a teen-ager." His mantra has been, "Avoid instant gratification: it is short-term expediency."

Sam Walton, one of the greatest entrepreneurs of the 20th century, revolutionized the bricks-and-mortar marketing of goods. He did this by improving the efficiency of distribution and offering lower prices–what Jeff would call "first-phase automation." However, Jeff Bezos revolutionized the entire world of marketing by transforming it from the concrete world of bricks and mortar to the ethereal realm of cyberspace–a true example of "second-phase automation." In less than a decade, Amazon.com has ushered in a new era of marketing that has changed irrevocably how consumers will shop, order and pay for items that they use.

Honors

Selected by *Time* magazine as Person of the Year in 1999, Bezos was featured on its cover. In that article, he was described as "the king of cybercommerce." At the time, Jeff was just 35 and the fourth youngest person to be so honored. Those who were younger were no less than Charles Lindbergh, Queen Elizabeth, and Martin Luther King.

Paul Saffo, director of Silicon Valley's Institute for the Future, described Jeff Bezos as "an extraordinarily thoughtful strategist," and commented (Leibovich, p. 93):

> *Jeff is launching this giant cruise missile in a general direction, but he doesn't know where it is going. He's inaugurated a business model of "Ready, Fire, Steer," not "Ready, Aim, Fire."*

His first employer, Graciela Chichilnisky, a Columbia University professor and fellow high-tech entrepreneur, told the media "I bet on Jeff Bezos' brain." In view of what Jeffrey Preston Bezos has been able to do in his first few decades of his life, it certainly seems to be a promising bet.

LESSONS LEARNED FROM JEFF BEZOS

Jeff Bezos is too young and too busy to have written his autobiography in which he presents the secrets of his success. However, many observers have studied his methods, interviewed his employees, and marveled at his revolutionary approaches to e-commerce that have defined the way companies will operate in this new cybernetic medium. A few brief but powerful lessons gleaned from these observations are presented below.

Build a Consumer-Centric Company

The old adage says, "give 'em what they want and they'll give you what you want." In Amazon's case Bezos gave customers a wide selection, a low price and the ability to buy conveniently with a fast turnaround. He began as a "customer-obsessed" boss and built a "consumer-centric" operation. Programmers were aghast when he insisted that the customer was always right even if they were wrong. That was what built Amazon. When you set out to make the customers' shopping unique and easier, it will ultimately show in sales.

His "customer-obsession" demanded that he hire people who were tolerant of obstreperous and obnoxious customers. The culture at Amazon was carefully built around the Amazon.com shopper. The organization's core competencies had to match those of boss Bezos. If personnel didn't match the mission, they were not hired. At Amazon, the customer was king and the employees were pawns who existed to serve the king's needs. Jeff's awareness of the special importance of customer satisfaction in the Internet medium came from his observation that a dissatisfied customer in a traditional store will tell five friends, while a dissatisfied customer shopping on the Internet may tell 5,000 or even 50,000 friends!

Sacrifice Now and Dominate Later

One of the tragedies of instant-gratification thinking is American's sad loss of the consumer electronic industry to the Japanese. The U.S. had pioneered the industry. Virtually every new product idea and patent was born in America. Televisions evolved out of the RCA patents and labs, stereos were pioneered at Ampex, transistor radios came out of Bell Labs, calculators evolved from work at Texas Instruments, and laser printers, PCs, the mouse, and other computer hardware were products of Parc Labs (Xerox) and others. Why did America lose what they had worked so hard to create? Because of short-term myopia! When Akio Morita came to

America, he paid $25,000 on behalf of his company, Sony, for the transistor licensing rights for Japan. MITI and the Bell engineers who invented the transistor told him emphatically that he would be unable to build a transistor radio. He didn't listen and went on to destroy the American radio industry.

Later when Akio Morita was interviewed by the *Wall Street Journal,* he boldly told them, "If I were made dictator of America tomorrow, my first act would be to eliminate the quarterly report." What motivated such a strong statement? He had seen American executives making self-serving decisions like refusing to invest now for the future because it would hurt their bonuses. Morita wrote in *Made in Japan* (p. 197):

> *Management must be willing to take risks. I think Americans listen too much to the securities analysts.*

He personally witnessed the Japanese juggernaut that obliterated industry after industry merely by thinking long-term and without self-serving decisions by executives. In 1960, America was building about 90 percent of the world's consumer electronic products. In 1990, they built less than 5 percent. It had nothing to do with labor rates and all to do with strategic thinking.

Visionaries like Jeff Bezos are always willing to forfeit a little for a lot – the safe present for the opportunistic future. He continues to remind investors, "We are still in day one of the web world opportunities." He is prepared to sustain losses in the imminent future to gain market dominance and then use that advantage to yield substantial profits. Though many regard it as a somewhat risky and unstable business model, Bezos might argue that the short-term thinking of the past has taken a heavy toll on American business.

Recruit and Hire the Brightest and the Best

Bezos had learned at D. E. Shaw & Company the importance of hiring the brightest and best employees. As noted above, Amazon.com used highly rigorous hiring strategies to recruit the most intelligent and driven people who could be counted upon in turn to hire only first-rate employees. He once observed (Leibovich, p. 65):

> *If you start out with A's, [i.e., first-rate people] you get to keep A's. If you start hiring B's, B's hire B's.*

By exercising his greatest powers of persuasion, Bezos was able to recruit and hire a cadré of outstanding people whose A status guaranteed that a generous supply of A's would be hired as the company expanded. In 2003, when Bezos invested in spacecraft builder Blue Origin*,* the company published a Web site on which it advertised for employees, cautioning aspiring applicants with a note:

> *Our hiring bar is unabashedly extreme…each person occupying a spot must be among the most technically gifted in his or her field.*

The recruitment of the "super-talented" has been applied at Microsof*t*, where Bill Gates, acutely aware of the importance of hiring intellectual talent, stated (Wallace & Erikson, pp. 259–60):

> *Microsoft's favorite recruiting grounds were Harvard, Yale, MIT, Carnegie Mellon, and a little college near Toronto named the University of Waterloo, which specialized in mathematics … Microsoft recruiters made personal visits to each of these schools in search of brilliant students, diligent and driven, who were cut from a cloth different from their peers. In short, Microsoft hired clones of its leader, over and over again.*

The productivity of Microsoft and Amazon.com attest to the wisdom of investing substantial time and money into recruitment and hiring.

Present a Charismatic Public Face to Engender Loyalty

Everyone who knows Bezos describes him as energy incarnate. He set out to make Amazon the dominant force in Internet marketing and became the poster child of Internet commerce. Spector opined (p. 179):

> *The Amazon.com story is a convergence of vision, intelligence, technology, money, and timing, but none of those elements would have mattered without Jeff Bezos' engaging personality, which was sold to the public and the investment community through one of the greatest and cleverest public relations campaigns in modern business history.*

The hard-driving intensity, the jocular eccentricity, the outrageous laugh, and most of all, the visionary passion conspire to create the persona of Jeff Bezos and present the public face of Amazon.com–a face that has done much to endear him to the public and engender customer loyalty.