Amazon Breaks Through

By Rob Spiegel

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Surprise, surprise. Amazon did it. They made a profit. In late 2000, CEO Jeff Bezos promised he would deliver earnings by the fourth quarter of 2001. Well, the reporting is in and he delivered, against all street predictions. Amazon reported net profit of $5 million with an operating profit of $59 million. That's real money. Overall sales hit $1.1 billion, giving the company its first billion−dollar quarter. Amazon still carries $2.2 billion in debt, but who's counting. Fact is, the Amazon made the Internet model work on a large and significant level.

Amazon delivered its profits the old fashioned way, by increasing sales and cutting down expenses. The company revamping its distribution in order to ship 35 percent more products without additional workers. For the forth quarter, the sales rose 15 percent while fulfillment costs shrank 22 million. Amazon also consolidated its shipping to save costs.

Perhaps the most important change came as Amazon decided to focus on its core expertise, books, music and video sales, a niche that has delivered profitability to the company for many quarters. That doesn't mean Amazon isn't interested in selling toys, household goods or electronics. But during 2001, Amazon shifted much of that business to partnerships it forged with brick retailers such as Toys 'R' Us and Target.

Amazon, it seems, is one the smartest Internet retailers. The company has learned a bit about offline retailing operations. They created efficiencies in their warehousing, fulfillment and shipping while focusing on a niche. This is a lesson for K−Mart, the mammoth retailer that filed for bankruptcy protection on the very day Amazon reported its first profit.

If you add Amazon's breakthrough to the good news that came from the 2001 Internet holiday season, you can expect the venture community will take a new look at ecommerce this year, especially when the economy begins to pick up speed. If the spring of 2000 was the end of the first big Internet surge, the spring of 2002 may beginning of ecommerce phase two. Actually, it will be more like Internet phase three, as the Internet did have a small mid−1990s commercial surge dominated by porn and get−rich−quick purveyors.

The dot com crash blew away hundreds of ill−thought−out business models. Those left alive have a revitalized chance for success this year. The growth of the Internet didn't pause through this recession. More people are online, more people are using high−speed connectivity, and more people are buying online. Even Internet ad sales grew through the downturn, which is quite remarkable considering that an offline ad depression has delivered a body blow to print and broadcast media companies.

So we begin 2002 with fewer Internet companies, more Internet buyers and a larger Internet advertising pool. The final piece of the picture, venture capital, will probably come later in the year. This will create a favorable environment for new Net launches or expansions by existing Internet companies. Certainly a good dose of skepticism will remain from the brutal dot com crash, but a new dose of caution will probably help enhance the positive environment for growth. The Internet boom of 1999 and 2000 toppled in part because a lack of caution pushed capital into incompetent hands.

The question remains: who will benefit from a favorable online business climate? During the holiday season of 2001, the big beneficiaries were major brick retailers such as Sears, Columbia House, Barnes and Noble, Toys 'R' Us. In part, it was because these companies had capital. New Internet companies had little to work with in promoting their business, since the venture community sat on the sidelines during all of 2001.

This could change in 2002. If the venture capitalists invest in new online ventures, brick companies could get a run for their money. Chances are, with caution in place, venture money will go highly experienced management teams, perhaps defectors from successful online teams now living within major brick retailers.

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"But I haven't the time not to shop at Amazon for books"

By Dilip Sinha

"But I haven't the time not to shop at Amazon for books" by Dilip Sinha

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