Q: How has Amazon.com's corporate strategy changed since the tech bubble burst?

A: Amazon initially thought of itself as a retailer, a company that sold products to consumers. Since the dot.com bubble burst, it has realized that this is a very narrow view. So it has really changed in two ways. One, it helps other companies, such as Target and Toys R Us, sell products. The second thing is that it has truly embraced the fact that consumers and even small business people would like to sell. Essentially, Amazon stopped thinking of itself as a retailer and started thinking of itself as a technology provider and a marketplace.

Q: Are there changes Amazon has already made or its plans for where it wants to go?

A: It has really achieved very good credibility as a technology provider. I think it's the leading technology provider in e-commerce. If you're a company and you're looking for someone to run your website, you may very well choose to go with Amazon because they have the knowledge and the ability to provide a service.

The other main reason that Amazon changed is because it stopped thinking of Barnes & Noble as its competitor. In the early days, during the rise of the dot.coms, the focus was on the e-commerce between Barnes & Noble and Amazon. Suddenly Amazon woke up and said: 'Hey! Barnes & Noble is not my competitor. My competitor is E-Bay.'

The really telling statistic was two years back when E-Bay became the most visited site in the holiday season—a statistic that is closely followed. All of a sudden Amazon said: 'Oh my God! What's going on here? We were totally focused on this small little thing and this big thing, that doesn't really look like us, has overtaken us.'

I think that Amazon did not have an innovative business model initially. All it wanted to do was to replicate a catalog operation online. But E-Bay found that the key is about connecting buyers and sellers. It is about helping people sell things on their
Q: But Amazon doesn’t offer the same service that E-Bay does.

A: It does it differently. Amazon tried to do the auction stuff and they just fell flat. But new sellers work through Amazon. If you’re buying a calling ID box, you may find that Circuit City.com is selling it through Amazon. You can place the order through Amazon, but Amazon doesn’t really sell the product. They just help you find somebody who sells it for a commission.

Essentially, Amazon has no risk there. It’s between you and Circuit City. Amazon just helped you find them.

Q: Does this mean that Amazon is moving away from providing a lot of the products that it does?

A: That’s their main challenge today. For Amazon to be successful in the long run, they should pare down their product offerings. They should reduce products that are downright unprofitable to sell directly and focus on ones that are profitable, like books, CDs, and DVDs. They’re not making much money off of things that are bulky and hard to transport. Amazon should have other people sell them.

Q: Do you see them moving in this direction eventually?

A: So long as Jeff Bezos is at the helm, they’ll not give up any products. They will just keep adding services and other product categories. The way the mindset of the managers works, I think it’s an ego thing. They’re not willing to withdraw any business, but they really should.

In my view, Amazon already has a huge deficit of $3 billion. The purity quarterly profit is insufficient to overcome years of huge losses.

Q: Is this misguided strategy the reason why they aren’t profitable?

A: Historically, there are many reasons. They’ve not been able to trim the corner on some product categories and they haven’t given up trying to sell them.

The second thing is that they overbuilt warehouse capacity and have inefficiencies. Also, customer acquisition has slowed down. This is a problem with e-commerce in general. The number of new customers who are buying online for the first time has slowed down.

Despite these factors, the stock price has mysteriously started to rise again. Amazon has never achieved a year’s profitability and they don’t even say they’re going to be profitable this year. So it’s unclear what investors are seeing.

Q: So Amazon should become more like E-Bay?

A: I think there will be one big online retailer — Amazon.

And then there are going to be a lot of smaller sellers who bring their wares to the Amazon marketplace because they can’t sell them on their own. If you can’t beat them, join them.

Amazon has a good credibility. I just wish they would increase their marketplace and service side and reduce their product side. They should slowly make a comeback.

Q: How much of the retailing market will online retailing eventually make up?

A: It’s hard to tell how much is being sold in online retailing. Would you count trading of stocks as online retailing? Expedia? Ticketmaster? We don’t typically think of these things as retailing — we think of fashion and shopping malls.

I would rather talk about specific product categories. Products that are intangible, for example music and financial services, will be dynamite. They are easy to download and they don’t require any physical investment.

Physical products will be less successful. People aren’t going to purchase too many couches online. Maybe some established players can integrate e-commerce into their operations, but it will be very hard to pull off when you have low margin items with high delivery costs, especially on products that people like to see and experience before purchasing.