**Amazon's Jeff Bezos: The ultimate disrupter**

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**He's a pro-customer, tightfisted risk-taker who is conditioning Wall Street to embrace his erratic earnings. If you're running a business with high margins -- watch out.**

By Adam Lashinsky, senior editor-at-large

FORTUNE -- Jeff Bezos likes to read. That's a dog-bites-man revelation if ever there was one, considering that Bezos is the cerebral founder and chief executive of a $100 billion empire built on books. More revealing is that the Amazon CEO's fondness for the written word drives one of his primary, and peculiar, tools for managing his company: Meetings of his "S-team" of senior executives begin with participants quietly absorbing the written word. Specifically, before any discussion begins, members of the team -- including Bezos -- consume six-page printed memos in total silence for as long as 30 minutes. (Yes, the e-ink purveyor prefers paper. Ironic, no?) They scribble notes in the margins while the authors of the memos wait for Bezos and his minions to finish reading.

Amazon ([**AMZN**](http://money.cnn.com/quote/quote.html?symb=AMZN)) executives call these documents "narratives," and even Bezos realizes that for the uninitiated -- and fans of the PowerPoint presentation -- the process is a bit odd. "For new employees, it's a strange initial experience," he tells *Fortune*. "They're just not accustomed to sitting silently in a room and doing study hall with a bunch of executives." Bezos says the act of communal reading guarantees the group's undivided attention. Writing a memo is an even more important skill to master. "Full sentences are harder to write," he says. "They have verbs. The paragraphs have topic sentences. There is no way to write a six-page, narratively structured memo and not have clear thinking."

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Jeff Bezos has always done things his own way, whether he's ignoring Wall Street's pleas for [**consistent earnings growth**](http://money.cnn.com/2012/10/25/technology/apple-earnings/index.html) or requiring his top people to construct artfully written missives or launching seemingly disparate businesses -- all at razor-thin margins. Only there's nothing random about Bezos's strategy. Indeed, like the memos he makes his managers write, his moves are driven by clear thinking and a cohesive vision, even if it takes a while for rivals to figure out Amazon's motives -- at which point it may be too late.

Bezos is the ultimate disrupter: He has upended the book industry and displaced electronics merchants. Now Amazon is pushing into everything from couture retailing and feature-film production to iPad-worthy tablet manufacturing. Amazon even sells [**ultracheap database software**](http://tech.fortune.cnn.com/2012/05/22/aws/) for businesses. (Oracle ([**ORCL**](http://money.cnn.com/quote/quote.html?symb=ORCL)), take note.) He's willing to take risks and lose money, yet investors have embraced him, pushing Amazon's stock up 30% so far this year. And even as Amazon expands and experiments, Bezos remains zealous about delivering a good customer experience. For all these reasons and more, *Fortune* has named Bezos its [**2012 Businessperson of the Year**](http://money.cnn.com/gallery/news/companies/2012/11/16/business-person-of-the-year.fortune/2.html).

It's not just *Fortune* that deems Bezos praiseworthy. He counts among his fans Amazon's sharpest competitors and a legion of entrepreneurial imitators. "Jeff is a manic competitor, a delightful human being, and a trusted supplier," says Netflix ([**NFLX**](http://money.cnn.com/quote/quote.html?symb=NFLX)) CEO Reed Hastings, whose company is enduring a full-frontal assault from [**Amazon's instant-view movie-streaming**](http://tech.fortune.cnn.com/2012/11/07/the-truth-about-amazons-8-monthly-plan/) service. Marc Andreessen, the Netscape co-founder and venture capitalist, marvels at Bezos's "staying power and willingness to withstand beatings." And in the absence of Apple's Steve Jobs, Bezos is the new undisputed role model for founders who want to keep control of their companies. "With Steve's passing, Bezos is the epitome of the venture-backed CEO," says [**Bill Gurley, another VC**](http://finance.fortune.cnn.com/2012/05/21/facebook-should-take-solace-in-amazon/) and longtime Amazon watcher, as well as the lead investment-banking research analyst for the company's 1997 IPO. "If you were to ask 100 startup entrepreneurs who the CEO is they admire most, he would show up on 95 of the ballots."

Amazon recently released a new e-book product called Kindle Serials. For $1.99, customers get a book delivered to their Kindle e-reader device serially -- say, once a week -- with no additional charge for each new episode. It's an homage to the bygone era when writers like Charles Dickens published their novels in newspapers one chapter at a time before collecting the work in book form. Kindle Serials is not likely to amount to a giant revenue stream for Amazon, which will ring up more than $60 billion in sales this year. But listening to the way Bezos talks about the history of serialization, you get a glimpse of his concept of customer feedback -- and how Amazon acts on it. "Even in Dickens's day, he would take notice of the criticism of the prior installments and use it to his advantage," he says.

How does Bezos use Dickensian continual improvement at Amazon? "We innovate by starting with the customer and working backwards," he says. "That becomes the touchstone for how we invent." Pushing the publishing industry to make books available electronically was a customer-friendly proposition: Readers got instant gratification at lower prices. Amazon Prime, the company's addictively popular all-you-can-eat delivery offering, eliminates friction; if you've already paid for unlimited shipping, then you order what you want, when you want, in the quantities you want. Amazon Web Services, the company's newest big division, offers business customers the same sophisticated online infrastructure technology that Amazon has developed for itself.

**MORE:** [**Amazon goes Hollywood**](http://management.fortune.cnn.com/2012/11/16/bezos-amazon-studios/)

Customer focus is a cultural issue, Bezos says, that distinguishes Amazon from other companies, whose chiefs craft strategy in competitive terms. "When they're in the shower in the morning, they're thinking about how they're going to get ahead of one of their top competitors," Bezos says. "Here in the shower, we're thinking about how we are going to invent something on behalf of a customer."

At 48, Bezos is relatively unchanged from the days when he was the boy wonder of the Internet industry. It is Election Day, and the weather in Seattle is splendid -- meaning it is not raining. Bezos holds court in a conference room in the Day One North building of Amazon's urban headquarters, where no corporate logos adorn the outside of the company's multibuilding campus. ("Day One" refers to his persistent assertion that the Internet is still in its infancy.) Bezos has wisps of gray stubble at the sidewalls of his otherwise bald pate, and his large brown eyes dominate his face. In a wide-ranging discussion about Amazon's culture and management techniques, he is by turns inquisitive and challenging, but also charming and relaxed. By multiple accounts he is the same way internally, though unforgiving of anyone who is ill-prepared. "He is very demanding," says a former insider. "He gets angry when he feels like people aren't being competent."

Nadia Shouraboura, until recently an Amazon vice president in charge of technology for Amazon's global supply chain and fulfillment operation, says she sometimes saw Bezos ignoring the discussion at his own meetings because, she realized later, he was reading e-mails from customers, usually complaints. Those e-mails trigger what Amazon people call a "Jeff B. escalation." By forwarding customer gripes, Bezos is able to have a direct dialogue deep into the company. Ordinary employees see evidence of his insistence on responsiveness. "My initial reaction was, 'You want me to be working on a Friday night on an order that was messed up by half a day?' " says Shouraboura, who recently opened a men's apparel store in Seattle. "Then it sank in. If one customer wrote to Jeff, there are others who didn't. And Jeff wants to understand the screwup to make sure it gets fixed."

One way to serve customers is to give them the lowest possible prices, and in that way Amazon is more like the granddaddy of American retail, Wal-Mart ([**WMT**](http://money.cnn.com/quote/quote.html?symb=WAG)), than its Silicon Valley counterparts. To offer the lowest prices, Amazon is famously frugal. Unlike in much of Silicon Valley, Amazon employees pay for their meals. Desks are slabs of wood that could be used for doors. For years Bezos chose ultracheap shipping rates for customers over expensive TV advertising. The penny-pinching applies to salaries, which are low throughout the 80,000-person-plus organization. "We pay very low cash compensation relative to most companies," says Bezos. "We also have no incentive compensation of any kind. And the reason we don't is because it is detrimental to teamwork."

**MORE:**[**Jeff Bezos' fashion foray**](http://management.fortune.cnn.com/2012/11/16/bezos-amazon-fashion/)

Make no mistake, Amazon rewards its teams. It's just that restricted stock that becomes valuable only over time -- and more valuable only if the company succeeds -- is the primary reward. For example, [**Jeff Wilke**](http://money.cnn.com/galleries/2011/technology/1112/gallery.amazon-all-stars.fortune/4.html), who runs Amazon's North American consumer business, one of its largest, earned a salary last year of $165,000. That reflected a $5,000 raise from the previous year. Save one peer with an ancient employment agreement, no one at Amazon makes more than Wilke. (That includes Bezos, whose annual salary is just under $82,000. Bezos receives no restricted stock awards either. Then again, his founder shares are worth about $19 billion.) For his part, Wilke held restricted stock worth more than $20 million earlier in the year. The stock performance clearly helps retention, but [**it isn't the primary motivator**](http://money.cnn.com/2012/07/23/technology/amazon-career-choice-program/index.htm) for Amazon's recruiting. "You go to Amazon because there's something big going on," says Dave Cotter, another recently departed executive who also is working on a startup of his own. "Other companies pay more."

In the world of consumer electronics, new-device launches are as hyped and choreographed as a Justin Bieber concert, and [**Amazon's most recent Kindle**](http://money.cnn.com/video/technology/2012/09/06/tech-amazon-kindle-fire-event.cnnmoney) announcement is no exception. It is pitch black inside a converted airplane hangar in Santa Monica until a faint flicker appears at the front of the room. As the lights come up, the source of the light is revealed: The tiny beacon is Jeff Bezos holding above his head a new Kindle Paperwhite, Amazon's latest e-ink device that for the first time includes illumination. The Paperwhite is as nerdily wonderful as Bezos sells it: A lightweight, moderately priced ($119) e-reader for those who like to read in bed in the dark without disturbing the person next to them. Amazon's [**newest Kindle Fire tablets**](http://tech.fortune.cnn.com/2012/09/19/how-good-is-new-kindle-fire/) are cool too -- all priced lower than [**comparable iPads**](http://tech.fortune.cnn.com/2012/10/31/apples-ipad-mini-the-reviews/) and pretty darn close in terms of features.

Everything about the Amazon event, from the new products to Bezos's lights-out stunt to his assertion that Amazon is offering the "best tablet at any price," invites [**inevitable comparison to Apple**](http://tech.fortune.cnn.com/2012/11/03/amazons-price-to-earnings-ratio-is-now-2767-apples-is-13/). It is equally impossible to avoid comparing Bezos [**to Steve Jobs**](http://management.fortune.cnn.com/2012/11/15/steve-jobs-sam-walton/), given that the list of their similarities is long. Bezos insists on a long-term orientation for Amazon, just as Jobs did at Apple ([**AAPL**](http://money.cnn.com/quote/quote.html?symb=AAPL)). He treats Wall Street with mild disdain, just as Jobs did. Amazon employees, like their counterparts in Cupertino, Calif., are known for being tightlipped on the subject of their respective companies. As Jobs did, Bezos has an extraordinarily loyal, long-serving, and close-knit brain trust of top executives who can channel his authority inside and outside the company. Wilke, the North American consumer chief, is a 13-year veteran. [**Jeff Blackburn**](http://money.cnn.com/galleries/2011/technology/1112/gallery.amazon-all-stars.fortune/8.html), a former investment banker who worked on Amazon's IPO before joining the company in 1998, is Bezos's top dealmaker. And [**Web Services chief Andy Jassy**](http://money.cnn.com/galleries/2011/technology/1112/gallery.amazon-all-stars.fortune/5.html) -- there's no requirement that top brass be named Jeff -- is a Bezos protégé who joined the company in 1997.

Bezos, like that other guy, [**has a shrewd and even ruthless side**](http://tech.fortune.cnn.com/2012/09/07/amazon-vs-apple/). Executives with Drugstore.com, now owned by drug retailer Walgreen ([**WAG**](http://money.cnn.com/quote/quote.html?symb=WAG)), still recall that a decade ago Amazon started a health-and-beauty category aimed squarely at the smaller company. Never mind that Amazon owned a significant stake in Drugstore.com at the time and that Bezos sat on its board. Years later, in 2010, Amazon launched a full-throttle push to market baby products to moms at the precise moment it was negotiating to purchase [**the parent of Diapers.com**](http://money.cnn.com/galleries/2011/technology/1108/gallery.smartest_people_tech.fortune/2.html), an act that could only drive down an acquisition price by striking terror in the hearts of other buyers.

**MORE**: [**5 ways the Kindle can become a top tablet**](http://money.cnn.com/gallery/technology/2012/09/12/amazon-kindle-fire-top-tablet.fortune/index.html)

Bezos is also willing to cannibalize his own companies: Amazon spent nearly $1 billion to [**acquire shoe retailer Zappos**](http://money.cnn.com/2012/09/04/smallbusiness/zappos-swinmurn.fortune/index.html) in 2009, but its Amazon shoe site competes directly with Zappos. As well, Bezos is adept both at changing the subject to one of his choosing and at crafting a reality that suits his purposes. Asked if Amazon's price-comparison app, launched during last Christmas's shopping season to the intense irritation of physical retailers, was a gentlemanly thing to do, Bezos responds, "I would broaden that to say we live in a world that is becoming more and more transparent." Similarly, the Amazon CEO is unapologetic about a strategy that for years [**avoided collecting state sales taxes**](http://money.cnn.com/2012/07/20/news/economy/amazon-sales-tax/index.htm) in locations where Amazon didn't have retail-oriented operations. "We have been very clear for more than 10 years that we are in favor of having federal legislation that simplifies and allows online retailers to collect sales tax," he says. When challenged that advocating a different position isn't the same as complying with the law as it stands, he replies, "Which is what we did." It's a legalistic interpretation, yet it has served Amazon extremely well in establishing strong positions nationwide. In Texas and California, for example, Amazon agreed to [**begin collecting sales taxes**](http://money.cnn.com/2012/07/18/news/economy/amazon-sales-tax/index.htm) after negotiating for favorable conditions for new warehouses.

The comparisons to Apple and Jobs go only so far, of course, and in some ways the two companies and their celebrated founders are polar opposites. Amazon, unlike Apple, has a low-price, low-margin strategy almost across the board. A favorite Bezos aphorism is "Your margin is my opportunity." In fact, whereas Apple has long prided itself for premium prices -- [**with the operating margins to show**](http://tech.fortune.cnn.com/2012/09/11/why-is-apple-so-cheap-and-amazon-so-expensive/) for it: 31% in 2011, vs. 2% for Amazon -- Amazon sells at the bare minimum needed to break even, on the assumption it will make money elsewhere. It's a completely different approach. Apple uses its platform to sell high-profit devices; Amazon sells low- or no-profit devices to pump ever more volume onto its platform.

Amazon also tolerates businesses under its roof that are unconnected to one another. Amazon Web Services, for example, has nothing in common with Kindles, and that's just fine with Bezos. He allows each to operate independently as long as they adhere to Amazon's overall values. He calls this "distributed innovation," and it contributes to a nimble corporate mindset that allows Amazon to branch out into new areas.

A strong strain of pragmatism, or practicality, runs through Bezos's decision-making. Sure, he has his credos, and he cites them frequently. "The three big ideas at Amazon are long-term thinking, customer obsession, and a willingness to invent," he says. But he doesn't let other tried-and-true practices hem him in. That aversion to TV advertising, for example? Going up against Apple and others in the device business has changed his mind, and Amazon is advertising its Kindles aggressively for Christmas. Amazon is also an overwhelmingly headquarters-centric company. Yet to get closer to the hardware designers he needed for the Kindle, Bezos opened the now 1,500-strong Lab126 operation in Cupertino that is so close to Apple that some Amazon employees can see Apple buildings from their windows. Pragmatism may be preventing Bezos from pulling the trigger on long-rumored initiatives such as [**same-day delivery**](http://tech.fortune.cnn.com/2012/08/01/amazon-6/) and a move into brick-and-mortar retail -- two projects that remain tremendous financial challenges, even for a company of Amazon's scale and execution prowess. Another long-rumored project, [**an Amazon phone**](http://money.cnn.com/2012/09/07/technology/amazon-phone/index.html), seems perhaps more manageable.

**MORE**: [**This man wants to destroy Amazon**](http://tech.fortune.cnn.com/2012/08/02/destroy-amazon/)

Bezos reveres invention. Other companies have more of "a conqueror mentality," he says. "We think of ourselves as explorers." Yet he's not too proud to copy others. As such, the success of [**flash-sales sites like Gilt**](http://tech.fortune.cnn.com/2012/10/01/women-startups-online/) begat Amazon's MyHabit site. Groupon's ([**GRPN**](http://money.cnn.com/quote/quote.html?symb=GRPN)) [**momentum in daily deals**](http://money.cnn.com/2012/11/09/technology/groupon-stock/index.html) led to [**AmazonLocal**](http://money.cnn.com/2012/03/15/technology/amazon-local-deal/index.htm) -- and a so far [**losing investment in LivingSocial**](http://tech.fortune.cnn.com/2012/04/18/whats-next-for-livingsocial/). Diapers.com clearly encouraged Amazon Mom. And so on. "You want to look at what other companies are doing," says Bezos. "It's very important not to be hermetically sealed. But you don't want to look at it as if, 'Okay, we're going to copy that.' You want to look at it and say, 'That's very interesting. What can we be inspired to do as a result of that?' And then put your own unique twist on it."

Bezos even takes a practical approach to his love-hate relationship with Wall Street. Having worked at a hedge fund in his twenties, he understands the investor mentality probably better than most CEOs. Perhaps as a result, for the first many years of Amazon's existence, Bezos frustrated investors by refusing to realize Amazon's profit potential. Then, around 2007, Amazon's investments began to bear fruit, and investors were delighted. The stock is up 10-fold in the past six years. "We believe in the long term, but the long term also has to come," says Bezos, explaining that periodically Amazon wants to "check in" with its ability to make money. Thus, in 2007, Amazon more than doubled its profit, to $476 million, on a 38% increase in sales to almost $15 billion.

The "check-in" made a dramatic impact on investors, including short-sellers who had wagered against Amazon's shares. "There were so many investors that were short Amazon's stock in 2006 and 2007 that when the shares moved from $35 to $100 they lost their jobs," says Brian Pitz, a bullish-on-Amazon analyst at investment bank Jefferies. Amazon currently happens to be in another of those investment phases. It is spending heavily on Kindle development, additional data centers, and new warehouses. These investments produced [**an unexpected loss of $274 million**](http://tech.fortune.cnn.com/2012/10/25/amazon-7/) in the third quarter, and Pitz expects full-year earnings of just $107 million -- well below the profitability of five years ago. (Bezos says he can't predict how long the investment phase will last, "and even if I could, I wouldn't tell you.") Still, bearish investors have been cowed. Despite the disappointing earnings report, Amazon's shares are worth more than 100 times Wall Street's estimates for next year's earnings. Says analyst Pitz: "Now you are either long term on Amazon or on the sidelines."

Jeff Bezos reads for fun too. A science-fiction buff who is funding space exploration as a side project, he just finished *The Hydrogen Sonata* by Iain Banks. "Read it on both Paperwhite and Fire HD, with Whispersync keeping my place between the two," he writes in an e-mail, referring to the Kindle feature that synchronizes a reader's progress across devices.

Given what he's built in the 17 years since turning on the Amazon store, Bezos might be forgiven for thinking of his legacy. He isn't. "I have joked that I want my legacy to be 'World's Oldest Man,'" he deadpans. The father of four has, however, gained insight over the years into what makes him tick. "I have realized about myself that I'm very motivated by people counting on me," he says. "I like to be counted on. I like to have a bunch of customers who count on us. I like being part of a team. We're all counting on each other. I like the fact that shareholders are counting on us. And so I find that very motivating." As he speaks, Bezos is so focused on not letting down customers, he clearly doesn't need a six-page memo to get there.

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http://management.fortune.cnn.com/2012/11/16/jeff-bezos-amazon/