How Does Amazon Really Do Business?

Written by Marco Attard

31 October 2013

Earlier this week Amazon announced its Q3 2013 results, and continues recording losses ($25 million) even as sales are up (by 24% Y-o-Y). Is Amazon the biggest non-profit organisation around? Not really, says former employee Eugene Wei in an analysis of what such results really mean.

Wei explains the Amazon business model in 2 sentences-- "Amazon is a classic fixed cost business model, it uses the Internet to get maximum leverage out of its fixed assets, and once it achieves enough volume of sales, the sum total of profits from all those sales exceed its fixed cost base, and it turns a profit. It already has exceeded this hurdle in its past."

In other words Amazon is not so much as making losses as playing the long game-- pouring cash into massive investments (such as fulfillment centres and datacentres) it hopes will pay for themselves later on. As Wei puts it Amazon has "boundless ambition," and wants to to eat global retail, the mobile device arena and even the cloud market.

One can even describe Amazon as a conglomerate of multiple startups, all running on the same platform. Profits from successful starups go to newer, loss-making ones in an entrepreneurial perpetual engine of sorts. Seen this way Amazon will only become "profitable" once that engine stops, and Jeff Bezos decides to do like Scrooge McDuck (or Apple!) and dump all profits in a money pile of epic proportions.

"If I were an Amazon competitor, I'd actually regard Amazon's current run of quarterly losses as a terrifying signal," Wei continues. "It means Amazon is arming itself to take the contest to higher ground."

How Does Amazon Really Do Business?

Written by Marco Attard
31 October 2013

You have to spend money to make money, the old saying says. Amazon appears to have taken such folksy wisdom to heart-- even if it will continue reporting losses in future reports.

Go [Amazon and the "Profitless Business Model" Fallacy (Eugene Wei)](#)

Go [Amazon Q3 2013 Results](#)

How Does Amazon Really Do Business?

Written by Marco Attard
31 October 2013