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Quietly, Amazon.com is hunkering down

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Amid all the bluster surrounding this week's string of major acquisitions and public offerings, there is a remarkable quiet emanating from Amazon.com.

While the Seattle-based online retailer's competitors -- eBay, Yahoo!, and Google -- have made headlines, Amazon has laid low this year, adding three small companies and coasting on last year's \$75 million purchase of Joyo.com Ltd., an online retailer of books, music and video in China.

Why isn't Amazon getting into the game like eBay, which recently acquired Skype Technologies for \$2.6 billion, and Yahoo!, which invested \$1 billion in Alibaba?

And why hasn't it entered the capital markets, like Google -- which many have speculated will use this week's \$4.2 billion public offering to fuel new acquisitions?

"They are more focused on their core business, retail, and building their own core technologies," said Jeetil Patel, a senior analyst with Deutsche Bank. "At this point, their growth -- in the U.S. and core markets that Amazon addresses today -- have come from internal efforts and using the moniker of price selection and convenience."

And, as numerous analysts have pointed out in the wake of eBay's acquisition of Skype Technologies and its Voice over Internet Protocol (VoIP) technology, being the "first mover" in a category is no guarantee of success.

Amazon learned that lesson the hard way.

In the late 1990s, Amazon became notorious for its disastrous Internet investments. Its voracious appetite for buying stakes in other retailers -- such as Pets.com, Kozmo.com and Bellevue-based HomeGrocer.com -- carried forward a lesson justified by its successful Internet launch in 1995: Being first on the scene was equivalent to being the scene.

One by one, those companies crumpled. Still, investment opportunities -- particularly in technologies that are key to Amazon's growth, such as search -- abound. And some believe that to retain its position as an Internet titan, Amazon must become more aggressive with its acquisitions strategy.

"These acquisitions (by eBay and Yahoo!) are putting activity pressure on other cash-rich companies that are near their space, like an Amazon," said Kevin Cable, executive vice president of Cascadia Capital, a boutique Seattle investment bank. "The software industry is consolidating. Period. The online industry is consolidating. Period."



 zoom

Meryl Schenker / P-I

Mario Rosales loads boxes onto a trolley before they are packed with merchandise in Amazon's Fernley, Nev., distribution center. As competitors make big news, Amazon expands its core business.

Amazon had \$629 million in cash and cash equivalents as of June 30, which pales in comparison with Google's projection of \$7 billion in cash, after this week's public offering, and Yahoo!'s roughly \$4 billion in cash.

But, Amazon's cash balance is more in line with that of eBay, which had \$897 million on the books on June 30, before its \$2.6 billion purchase of Skype and \$634 million purchase of Shopping.com in August.

Cable believes that Amazon and other large Internet companies could take advantage of "the broad-based availability of midmarket companies coming out, because of "a lousy IPO market."

But Amazon spokeswoman Patty Smith emphasized the company's internal horsepower over its potential acquisitions: "We have thousands of software development engineers in the U.S. and abroad constantly innovating and introducing new features -- whether personalization technology or other features on the site that make it easy for you to find and purchase what you are looking for."

Chugging along

Amazon hasn't disclosed the cost of its three comparatively minor purchases so far this year -- BookSurge, Mobipocket.com and CustomFlix -- but they are all subtle additions, not earthshaking deals like Yahoo!'s \$1 billion bet on Alibaba.com, a Chinese e-commerce company.

The question, then, is what happened to Get Big Fast?

"They obviously looked at their build-versus-buy equation and switched their strategy from 'buy' in 2000-2001 to 'build,' " said Cable. "I would contend that their build strategy has been successful -- but given the cash-rich nature of the company and given the really interesting strategic potential out there, I would say Amazon is feeling the pressure to step up to the plate."

But Amazon's actions and public statements so far indicate that it is hunkering down and focusing on its business: the buying and selling of things.

"When it comes to our growth, we are going to do it by adding selection in countries where we have operations, adding categories, and increasing items within those categories," said Smith.

That's not very sexy, but it may be the smart move given the quiet march of Wal-Mart on the Web. Though Wal-Mart.com still trailed Amazon.com by more than 19 million unique user visits in July, Wal-Mart.com has increased its Web visitors 37.5 percent in the past year to 22.6 million user visits in July, according to the most recent figures from comScore.

That compares with a 24.2 percent increase to 42 million U.S. visitors to Amazon sites in July. Meanwhile, visits to Overstock.com jumped by 83.8 percent to 17.2 million in July.

Amazon's prominence as the world's largest Internet retailer also makes it a prime target of marketing campaigns like that of Buy.com, which said on Monday that it will sell its in-stock books for 10 percent less than Amazon until the end of the year.

"We are looking at making this promotion a permanent fixture at Buy.com," said Buy.com President Neel Grover in a statement.

Still, said analyst Patel, "If you cut it across Amazon's core business, selling product and shipping it out, there haven't been too many online competitors in the marketplace."

But as the race to the all-important holiday buying season begins, Amazon is not just competing with other Web companies but also looking to box out brick and mortar stores.

"Amazon is a retailer first and foremost," said JupiterResearch's retail analyst Patti Freeman Evans. "It is September, the big holiday season is looming, and if you don't make your fourth-quarter numbers -- your last six weeks -- you don't make your year."

Building and networking

Rather than focusing on acquisitions and a "first to market" strategy, Amazon has emphasized crafting its technologies in-house and building up its selection via its network of third-party merchants who sell on its site.

"A lot of what you see in our tech and content expense line ... is going to make things better for our sellers and better for our buyers," Chief Executive Jeff Bezos said during the company's last earnings call. "There will be as much change and as much opportunity for growth and free cash flow generation over the next 10 years with this kind of technology innovation as there has been for the last 10 years."

In the second quarter, 28 percent of Amazon's transactions were conducted by third-party merchants -- which offloads part of Amazon's costly burden of storing and shipping inventory while still earning it a commission. It also continues to sell its technology platform and managerial skills via Amazon Services Inc., powering Web sites such as Target.com, The Bombay Co. and NBA.com Store site and servicing other merchants' Web sites.

As the company's search engine A9.com, which uses some technology from its 1999 purchase of Alexa Internet, lags far behind its competitors for traffic, "The time to market issue is the most precious they have," said Cable, noting that search has become a key metric for online retailing.

Still, Amazon -- which hates to speculate about its future actions -- isn't writing its own buying power off, according to spokeswoman Smith.

"We continue to develop a lot of technology in-house," she said, "but when we see opportunities externally, we are not limiting ourselves."

AMAZON DEALS

1998

Buys PlanetAll, Junglee Corp. for \$280 million.

1999

- Buys 54 percent stake in Pets.com
- Buy 46 percent stake of Drugstore.com
- Buys Exchange.com, Accept.com and Alexa Internet for \$645 million, mostly in stock
- Buys e-Niche Inc. for \$200 million in mostly stock
- Buys 35 percent stake in HomeGrocer.com for \$42.5 million

2000

- Invests \$30 million more in Drugstore.com
- Buys 5 percent stake in Audible.com
- Invests \$60 million in Kozmo.com

2004

- Buys Joyo.com for \$75 million

2005

- Buys BookSurge, Mobipocket.com and CustomFlix