

Andy Jassy steers fast-growing Web unit for Amazon

November 20 2013, by Jay Greene

Most consumers think of Amazon.com as an online bookseller or, increasingly, as a digital marketplace where they can buy everything from diapers to giant flat-panel TVs.

But the one division that may eventually trump them all in terms of [revenue](#) is Amazon's deeply geeky [business](#) of selling infrastructure computer services to other companies over the Internet. Robert W. Baird & Co. analyst Colin Sebastian estimates that Amazon Web Services (AWS), launched 7 { years ago, is generating \$3 billion a year on an annualized basis. That would put its growth at nearly 50 percent a year.

The executive running the business, Andy Jassy, has little doubt that one day, AWS will be the company's biggest sales engine. To him, it's simply math. The business AWS is in generates trillions of dollars a year in spending. And he believes that companies will shift that spending from buying hardware and software to run their businesses to renting it.

No company may be better positioned than Amazon to capture those dollars. AWS pioneered cloud computing, the business of providing infrastructure computing as a service. It recently beat out IBM on a \$600 million contract with the Central Intelligence Agency. Its technology powers upstarts, such as Netflix and Airbnb, and corporate giants, such as General Electric and Pfizer.

Jassy chatted with The Seattle Times at re: Invent, AWS's annual conference in Las Vegas, about the division's prospects. Here's an edited

version of that conversation:

Question: The second re: Invent is coming to a close. What have you learned?

Answer: It's been pretty amazing to be a part of it. With 9,000 people here, we've had 50 percent more people here this year than last year. It's got a broader distribution of the types of companies - about a third startups, a third midsize companies and a third enterprises.

I think we're really past the stage of people asking whether or not workloads are moving to the cloud. The only question is how fast will it happen and which ones will go first. You see that very much in the conversations and the dialogue here.

Q: Competitors may be behind Amazon when it comes to cloud technology. But they have business relationships with customers that extend back for years. How do you disrupt those business relationships and get in with those customers?

A: I think there are reasons why people are moving to the cloud so quickly. They are really applicable to companies of every size and in every business.

If you can trade capital expense for variable expense, for most companies, that's very attractive. The second thing is that variable expense they pay in the cloud is significantly less than they could pay on their own. A third thing is they don't have to guess at what their capacity needs are going to be. They can use AWS and pay for it as they consume it.

To take that scarce resource, who are software-development engineers, and instead of spending them on the heavy lifting of undifferentiated

infrastructure, you get to spend them on things that really differentiate your business.

At the end of the day, it doesn't really matter how long you've had relationships with customers. If the value proposition is compelling, customers are going to move there.

Q: But there are many companies with IT departments that are terrified of moving to cloud computing because it's technology with which they are not familiar and it threatens the way they've done business for years. So how do you get them over that hurdle?

A: It's a good question and there are a lot of things we've found.

A lot of it is education. There are people afraid of things they don't know well. Another thing is training. We train tens of thousands of customers all over the world. And what we find is most people find it's pretty easy to use. And most people get excited about acquiring new career skills.

A third thing is customer references. As you see more established companies (using AWS), it gives them more comfort.

Q: You had a bit of fun in your keynote speech referring to IBM as "old guard." How big of a threat are they to AWS's growth?

A: From the beginning of our thinking about AWS, we always expected there would be multiple companies in the space. One of the surprising things to us is that it's taken them so long to enter.

We have a 7 {-year head start on all these technology platforms launching. When we talk with customers, typically, the alternatives they are considering from AWS are their current on-premises solutions.

It's quite interesting to see how fast the business is growing. We believe it has the potential to be the largest business at Amazon one day.

Q: Let's get back to IBM. They are taking out bus advertising in Las Vegas during your conference. It suggests a level of threat they see to their business that AWS poses. Do you see some level of threat to your business from them?

A: We don't. If you look at the market segments that AWS is participating in - infrastructure software and tools, hardware and data-center services - globally, those segments represent trillions of dollars. And logic says there's not going to be only one successful [company](#) in that space. I don't think there will be 30.

But I do think there will be a handful of them.

Q: The CIA contract was a big win for you because it spoke to some customer's concerns about reliability and security. How do you build on that?

A: The CIA contract was a further credibility builder for us in the public sector, but also in the enterprise. Virtually every enterprise we've talked with over the last six months has asked us about the CIA deal. For many of them, if the security and operational performance works for an entity like the CIA, it will work for them as well.

Q: It's interesting that customers are asking about it. In hindsight, did it help you that there was a dispute that made this deal public?

A: Yes. I can say very little about the CIA work that we're doing. I don't think I would have been able to acknowledge it if it hadn't been protested (by IBM).

Q: What do you think the impact of [cloud computing](#) will be on tech spending over the next decade?

A: In my opinion, it's going to meaningfully increase the amount of technology spending, which sometimes seems counterintuitive. (The companies) people buy technology from may shift. But if you look at most big innovations in delivery models, it doesn't usually yield lower spending.

When fax machines came about, people said, "Oh, my God, we're going to save so much time and people won't work as hard." It didn't quite work out that way.

And think about these mobile devices such as BlackBerrys and people said, "Gosh, it's so much more efficient to use these machines, people will do less work." I haven't see that happen.

Q: You said earlier that AWS will eventually be the biggest business at Amazon. Will that change the nature of what Amazon is?

A: No, I don't think it changes the nature of what Amazon is. I happen to think it's still early days in every one of Amazon's businesses. That's saying something, given that our retail business is a \$60 billion-plus business, growing at a pretty good clip.

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