

## HQ2 sweepstakes: Amazon's business much more than e-commerce

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There's the part of Amazon that sells and ships books, shoes, electronics, toys and even groceries.

There's the side of Amazon that makes movies and television shows, e-readers and devices for the connected home. There's also the Amazon business that forms a vital link in the global internet infrastructure that helps companies and governments do business.

In choosing a second headquarters, experts say Amazon is likely to seek out the community that can best serve its web of businesses—those of today and those Amazon has in mind for the future. And priority No. 1, observers say, will be talent.

Understanding Amazon's business might offer clues into the types of talent the company will need in future, observers say.

Mike McQuaid, a public affairs executive in Seattle and a former Amazon employee, worked in a division of the company years ago. Amazon, he said, hires brilliant people and moves quickly.

For a company that reported nearly \$178 billion in sales in 2017, Amazon in many ways still operates like a startup, McQuaid said.

"It's business," he said, "is innovation."

Amazon at heart is a tech company that happens to do other things, such

as produce movies and television shows. It's also a top logistics company and a master merchandiser and marketer. It's a company that employs a wide-range of skill sets.

"Amazon is an engineering company and an engineering culture," said Colin Sebastian, a senior equity analyst at investment firm Baird.

"What's really unique about their model is everything expanded out of their retail model."

Amazon will likely need thousands of engineers and software programmers among the 50,000 jobs it says it will fill over the next decade or so. But it'll also need corporate managers, marketers, advertising experts, lawyers and accountants that staff typical corporate headquarters.

An Atlanta Journal-Constitution analysis earlier this year Atlanta rated in the top tier of the 20 communities on Amazon's shortlist for airport connectivity, educated workforce, quality of life, diversity and business climate.

A report last year by the research arm of real estate services firm CBRE ranked Atlanta No. 5 among the top North American cities for tech talent, behind only the San Francisco Bay Area, Seattle, New York and Washington, D.C.

Communities in greater New York and Washington make up five of the 20 communities on Amazon's shortlist.

Georgia Tech, meanwhile, produced more students with engineering degrees in 2015-16 than the University of California at Berkeley and Stanford University combined, according to data from the National Center for Education Statistics.

The state of Georgia's bid for the company is said to top more than \$1 billion in grants, tax credits and other perks. State officials have said the package centers on workforce and demonstrating that Georgia has the ability to maintain a stable talent pipeline.

Companies including NCR, Home Depot, Honeywell and Equifax have announced major expansions or research and development centers near Georgia Tech in Midtown to help tap into the student and faculty talent of Tech and other universities in the region.

Craig Menear, chairman and CEO of Home Depot, said in a recent editorial board meeting with the AJC that competition for tech talent is intense. Home Depot has a research center at Midtown's Technology Square and a software development campus in Cobb County.

Amazon is not only Home Depot's top online sales competitor, but a rival for skilled workers. Home Depot's recruiting pitch is to show new grads and experienced technologists that the company wants to develop innovative ideas and solve problems.

"When you work on cool and innovative things, people want to be a part of that," he said.

## **Amazon's businesses**

Amazon says its mission is to be the world's most consumer-centric company.

Its Prime membership service is designed to make the business "sticky," to woo consumers with benefits—such as free two-day shipping, discounts and streaming entertainment—that keeps people buying from Amazon.

The Echo smart speakers, essentially artificial intelligence-powered personal assistants, can answer questions, tell jokes, play music and also help you buy more stuff from Amazon. These devices will only get more sophisticated over time, and capable of performing more tasks, as Amazon and other companies plow billions into development.

This month, USA Today reported that homebuilder Lennar is offering new homes with Wi-Fi standard, including smart features such as locks, lights, climate control and other systems controlled by Alexa. Lennar said such features are now expected as consumers adopt new artificial intelligence-powered devices.

Amazon sells not only its own products on Amazon, but also those of third-parties, something that's actually more profitable for Amazon than selling its own goods and makes more merchandise available to shoppers. Amazon says about half the items sold on its site each worldwide are from third-party merchants, including about 70,000 small- to mid-sized businesses and authors in Georgia.

Also under the Amazon umbrella, are companies including shoe merchant Zappos, the audio book company Audible, gourmet grocer Whole Foods Market, deal site Woot.com and gaming community Twitch.

Amazon doesn't break out financial results for all its businesses. It reports results under three broad categories: North America, International and Amazon Web Services.

It's most profitable division is Amazon Web Services, which provides cloud computing services for companies and government.

Amazon built that business for its own internal use. The company needed the mammoth computer infrastructure to make online shopping

possible and after it built tremendous computing infrastructure to power the business, Amazon determined it could profit off of selling that computing power to others.

AWS reported \$17.5 billion in sales in 2017—about \$4.3 billion in operating income. It also accounts for about 10 percent of Amazon's total revenue, but it generated more profit than Amazon's North American division, which produces six times the sales of AWS.

The web services division is popular with the private sector because it offers immense amount of storage and computing power and the system is reliable, said Josh Olson, a technology analyst with investment firm Edward Jones.

"That infrastructure build out has taken years and years, more than a decade to build out, and that has given them a significant lead," Olson said. "It's a very fast-growing market and they have a significant competitive advantage."

E-commerce is very low margin in terms of profits, while AWS is a cash cow.

Amazon has a strong competitive edge in the cloud computing market and will want to continue to grow it to help the profits from that division subsidize the other things Amazon does to win over customers, analysts say.

That includes things like its lucrative Prime membership program, two-day and same day shipping and the company's expansive distribution network.

"It's allowed them to take more risks," Olson said.

Amazon already has found Georgia as a fit for many its projects.

The company has more than 4,000 employees in Georgia, mostly at its fulfillment centers and Whole Foods market.

But Atlanta also is home to one of more than a dozen Amazon technology hubs in the U.S. Workers at the hub largely serve Amazon's web services division, according to data from the [company](#).

But AWS also has its East Coast campus in northern Virginia outside Washington, D.C., which is among the contenders for HQ2.

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