Buy-the-book retailer Amazon now sells its computer know-how

By CRAIG HARRIS
P-I REPORTER

When customers order from the Web site of Benefit Cosmetics, a 30-year-old luxury line of makeup with quirky names, they get a personal touch.

Dr. Feelgood foundation, You Rebel moisturizer and other cosmetics come directly to the door, neatly wrapped with white and pink tissue paper sealed with a Benefit sticker inside a plain brown box.

But what might surprise customers of the San Francisco-based makeup company is that Benefit Cosmetics has nothing to do with running the site, taking the order, shipping the goods or even folding the tissue.

That's all done courtesy of Amazon.com.

While the one-time books-only seller is widely known for its transformation into an online shopping mall with 34 different stores, Seattle-based Amazon has quietly spent the past few years leveraging its computer know-how to become an emerging technology company outside its core business.

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Francois Darricau, Benefit's chief financial officer, said the company went with Amazon because of its "state-of-the-art" operations and Amazon's success in running Web operations for other major retailers such as Bebe, Sears Canada, Bombay and the National Basketball Association.

But Amazon's fingerprints, including the company's smile logo, are nowhere to be found in the entire transaction with Benefit Cosmetics.

"The average consumer may not put that connection together, and that is OK with us," said Wes Herman, vice president of Amazon Enterprise Solutions.

"We are behind the
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scenes powering it."

Target was the first company to use Enterprise Solutions in 2000, and Amazon said it has other companies, including Timex and British department store Marks & Spencer, in the fold, but declined to disclose the exact number. While Amazon runs Web sites for a handful of companies, it provides a full menu -- customer service, taking orders, shipment and Web operation -- only for Target, Bebe and Benefit Cosmetics.

"The way to think of it is you have a private-label Web site with a client's brand that operates using the same set of shared technology resources that power Amazon.com's family of retail sites," Herman said. "We figured out how to sell and do e-commerce right. ... We bring an ongoing investment in technology."

Electronic storage and more

Amazon also has a 4-year-old Web Services business that offers 10 programs Web developers can use to build software applications. Companies from Silicon Valley startups to Microsoft have used the services, and more than 180,000 developers have registered to use the programs since July 2002.

One of the more popular services is Simple Storage Service or S3, which uses Amazon's extensive computers to store data. Another recent rollout, still in beta, is called Elastic Compute Cloud, which can be used to crunch data on Amazon's computers. With both systems, users pay only for the space they use.

Don MacAskill, chief executive of Mountain View, Calif.-based SmugMug, said his photo-storage company would save $500,000 this year by using S3. "It's still significantly cheaper than for us to do it in house," he said. "I don't know what the magic is to make that happen; they must have the economies of scale."

Chris MacAskill, Don's father, who a decade ago competed against Amazon as an online bookseller, said he has been amazed at how his former rival continues to broaden its business. "They picked the right first thing to sell: books," Chris MacAskill said. "When they started adding all the other stuff, the whole world started wondering, what does this brand stand for? They were selling cookware and toys. ... But brands are like quick-drying cement. If you let a brand congeal too quickly you are toast and you won't be able to break out of it.

"Now they are on to electronic storage. We hope they succeed, because it rocks. They have done a wonderful job."

Amazon Web Services received a nice plug this summer, when the University of California-Berkeley credited the operation for helping a professor track dust grains in the solar system.

"Part of the goal is to level the playing field and let developers of all applications and all sizes and all levels of sophistication have the same opportunity to innovate," said Adam Selipsky, a vice president for Amazon Web Services. "We provide a series of building blocks that developers can use to build innovative applications."

Selipsky said Amazon has expanded its scope because it is just good business, and the company is making money from its technology businesses. But he and others declined to disclose exactly how much

Buy-the-book retailer Amazon now sells its computer know-how revenue the new ventures were generating.

Michael Arrington, chief executive of the blog TechCrunch, which tracks Internet startups, said Amazon is getting a foothold in the technology market. He also said Amazon's S3 has disrupted competitors that also provide electronic storage service because Amazon can provide the service for less money.

"I don't think their Web service business is material to their bottom line because they sell so many books. It's not relevant yet," Arrington said. "But they are seen as innovative."

At this point, the business diversification appears to be costly for Amazon.

While Amazon does not break down how much it spends on each technology venture, the company's technology and content spending for the first six months of this year was $314 million, a 59 percent increase from the same period a year ago. Since 2003, the company has spent $1.3 billion on technology and content.

In July, company officials said technology spending was part of the reason second-quarter profits declined 58 percent from a year ago, to $22 million. The disappointing earnings dragged Amazon's stock down nearly 22 percent, to $26.26, in late July, the lowest point in more than three years. The stock has since rebounded a bit and closed Friday at $30.51.

The company has said repeatedly that the investment in technology, including Web services and digital initiatives, is important to its long-term success.

Is it worth it?

Some analysts question whether the technology investment will pay off.

"This is one of the several areas that Amazon tries just in case they gain some traction ... and to gain a bigger foothold with the Web community," said Safa Rashtchy, a managing director of Piper Jaffray and a senior research analyst.

Rashtchy said he's not counting on the technology ventures to become a major part of the company's operations.

Dan Geiman, a Seattle-based analyst with McAdams Wright Ragen, said it's evident that Amazon is not managing itself for "near-term earnings" based on the heavy technology spending it has done since 2005. Instead, Geiman believes Amazon is working to offer services that enhance a customer's experience. "The question in everyone's mind is: What will the payoff be?" he said. "It will help build loyalty, but it's hard to quantify."

But Geiman also is impressed with what's been rolled out. "The rate they are developing some of these things is pretty impressive and far outside the scope of being a retailer or an online retailer," he said. "They continue to push the envelope as far as technology."

AMAZON.COM

- Headquarters: Seattle
- Employees: 12,000*
- Revenues: $8.49 billion*
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- Profits: $359 million*
- Businesses: 34 different retail stores; Amazon Unbox video download; Enterprise Solutions and Web Services such as Elastic Compute Cloud, Simple Storage Service, Mechanical Turk; Historical Prices and Alexa Web Services.

*2005 figures.

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