

What Happens Next – Sunday May 16, 2021

Food Addiction, Amazon, Good Stagnation, ESG, and Racial Indoctrination

Brad Stone QA

Larry Bernstein: We had David Weil on the show about three, four weeks ago, talking about the gig economy. And we didn't really talk about Amazon so much, so let's bring it home. You're right, Amazon is not hiring the pilots, they're not hiring the drivers, and they're hiring independent firms to take it that last mile. They do it for a number of reasons, one is for unionization, another might be that they don't want to get involved when someone runs over a child and you have to have a 24/7 news cycle on that topic. In your own mind, why do you think Amazon's doing that, and why should we care? Should we allow firms to choose to focus on certain things? Amazon has like a million employees already, the fact that they don't have 1.2 million, is that really a problem?

Brad Stone: Well, first of all, the news cycles already happen when an Amazon driver hits a pedestrian. So they can't escape the bad press, but they do try to escape the legal liability, often not successfully. There have been some settlements that I write about in the book, where they've had to pay a family because of a driver's mishap. And what they've been trying to do is exert more control over those drivers with in-car surveillance and different kinds of software that monitor their performance. I think David makes a pretty good case that this does matter, that labor models like Uber's and Amazon's are having an impact on income inequality. Amazon tries to polish the halo over its head when it announces things like a \$15 an hour wage or \$17 an hour wage.

But this network of middleman and independent contractors, they're treated like employees, but they don't have the protection of labor law. They don't fully enjoy the same wages or the rewards of Amazon's growth. And it's a great illustration of inequality among the workforce in a single company. So, when we ask why is the problem of income inequality getting so bad in the US with major political repercussions, this is a microcosm. And I think David Weil makes a good argument that this labor model needs to be addressed. And last I heard, the Biden administration was looking at him to bring him back as a wage regulator. So if that happens, perhaps he could have an impact.

Larry Bernstein: Let's go back to grocery stores. You heard Michael Moss's talk about providing the right foods to consumers. How does Amazon think about

that in the context of Whole Foods, Amazon Fresh and how they're going to be providing food to the public?

Brad Stone: Amazon's compass points only one way, and that is towards what its customers want. And if the customers want Fritos and Cheetos and Coca-Cola, they're not going to take a principle stand on that. I do think it's remarkable that they have left Whole Foods alone, and I think one of the big things that the activist investors were clamoring for in the battle over Whole Foods, was trying to open up those grocery aisles to those popular products, and so maybe it was a bit of a principled stand, that they let John Mackey run Whole Foods. But the new Amazon grocery store stores have all the junk that you would expect, the online delivery services like Amazon Fresh have all the junk.

And when you look at Amazon, well it's interesting when you look at their private label products, and they're just starting to get into this, they do tend to go for a higher quality skew of snack foods and whatnot. So perhaps they're taking the high road, but I don't think we can count on Amazon, like we probably can't count on Walmart and other big grocery stores too, they'll offer the selection, but I don't think they'll try to make a significant impact on their customers tastes.

Larry Bernstein: Variety was another theme of Michael's talk, and no one offers more variety of products across the board than Amazon does. I mean, they offer everything, to your previous book, The Everything Store, it offers everything, and we like that variety: we want it, and we want it fast. These run core to Amazon's mission statement, provide everything, potentially even in a day or two. How do you think about variety as the critical aspect of Amazon's success?

Brad Stone: I mean, it's right there, back in 1994, when Jeff Bezos is a vice-president at D.E Shaw, a Wall Street hedge fund, and he's actually researching ideas for D.E Shaw and he comes upon the idea as he's observing the massive growth of the worldwide web, that you can create an everything store. That the selection of a normal store is going to be bounded by shelf space, but online, it can be unbounded, even if you don't have an obscure book, if somebody orders it, you can potentially go get it. And so variety, it was the first advantage Amazon had, that endless selection. The price is always going to be higher because you had to store it and pack it and ship it, and convenience was always going to be worse because customers would have to wait a couple of days, but selection was right there.

And one of the stories I tell in this book is how Amazon has pursued selection overseas, and it's opened up the marketplace to overseas

sellers, particularly in China, close to manufacturers, and a wave of low cost goods have flooded into the marketplace. If you're an Amazon customer, you probably sometimes can recognize that. And the selection has come with a lot of negative aspects, like poor quality or sketchy brands that basically don't stand behind the customer promise. So yes, selection's been key, variety has been key, but it's also brought some unintended consequences.

Larry Bernstein: Let's go back to Alexa for a second. So Bezos came up with this idea, he put it together, but I haven't heard a lot about the product in the last couple of years. I imagine that when he designed it, he expected this to continue to grow exponentially, in both use and quality, that there might be some third party designed apps. Why hasn't Alexa exploded as a solution to helping people solve problems?

Brad Stone: I feel like it has slowed down a little bit, perhaps with the migration of Bezos's attention to other things that are happening in his personal life, and of course his responsibilities, his philanthropy, and now he's moving on as CEO. But I do think they have encountered, well, two challenges, one, a technical challenge. The idea that he had was a fully conversational computer, the practical concerns his executives had was launching this thing with some actual skills that they could advertise. And I think they did that with music and 'turn on the lights, turn off the lights, recite the weather or read the news'. And it hasn't grown that much, and I think they're hitting some natural barriers on artificial intelligence and conversational computing.

And then the second part is, as you mentioned, it hasn't created the kind of ecosystem of apps that you have on your smartphone, and they have tried, but I think there's a fundamental limitation there because it's frankly mostly conversational, there are some Alexa devices with skills, it's hard to see what's available and summon the right skill, it's just not there in front of you. And maybe, perhaps we as humans, when it comes to our technology, still really rely on words on a screen. And so it is slow, but by any measure, it's pretty much a success. I mean, they've got over a hundred million devices out there and more than any other company, they probably are further in terms of networking the home, bringing home appliances and light bulbs and doorbells, and other aspects of the home onto a computer network and making it easily operated by the homeowner.

Larry Bernstein: It was in your first quote at the beginning of the book, you mentioned that Thomas Edison's genius wasn't inventing, it was inventing a system of invention. And we had Ernie Freeburg on the show a couple of weeks

ago, talking about Edison and the teamwork involved in the process of invention. But like the story you're telling today, is the vital ingredient Jeff Bezos personal part of the process, where he's coming up with the big idea and then throwing resources to solve it. How important is he to the system? Because, in some ways, I imagine these systems are enormous. When you discuss logistics, for example, he hired an excellent team and followed some big ideas, but he wasn't in there day to day managing that process. Why do you think he is so critical to the success of the institution itself?

Brad Stone: He's critical to a certain kind of success, when you peel back the layers of the big technology innovations like AWS and the Kindle and Alexa, he is there, but I think you're right in that while he has sponsored the big changes, like logistics and groceries, the marketplace, and AWS, there have been other leaders there. And so when I talk in the book about a system of invention, I'm talking about the customs, the leadership principles, the rituals like the six page documents that some people probably know about, but they can read more about in my book or you could even Google Amazon's leadership principles. And that system of invention has actually been very successful outside of Amazon, so Bezos instituted it at The Washington Post, they present documents to him, he reads them, he asked the executives to bring him new things.

And so, I mean, I do think that he has set up an enduring franchise that will continue to succeed when he steps away for good, it might be this fall, but I suspect he will linger for a bit. But you're right, in terms of like that disruptive new technological idea, the insight that he had with Alexa, the \$20 computer, brains in the cloud, operated by voice, Amazon might miss that. And when I look at Andy Jassy, his successor, or other members of the Amazon leadership team, there's no one like that. In fact, there are now very few technologists. And so that could be a challenge for Amazon going forward.

Larry Bernstein: One of the most incredible things about Amazon is their willingness to start another division that will attack one of their core businesses. Take the Amazon marketplace and the willingness for creating an environment for their competitors to compete on the same products that they sell in their own store. Very few companies I've ever heard of were willing to do such a thing. Is it Bezos, is it the institution as a whole that says, "You know what, let's attack what we're doing right now and just see what happens." How do you view the Amazon marketplace, and their willingness to take themselves on?

Brad Stone: Yeah, you're right, it's a willingness to endure the corporate discomfort that comes from setting competing teams against each other inside. Amazon's history is replete with them. Bezos selected an executive to start the Kindle business back in 2005, I think. And he instructed the guy, "I want you to proceed as if your job is to put everyone selling physical books out of business." And then you fast forward, I talked about the grocery stores and Amazon is introducing these Amazon fresh grocery stores in direct competition with Whole Foods, sometimes in the same neighborhood. So the reason they do that is because they want to be everywhere, they want to provide what their customers want. They view business expansion as active experimentation, trying a lot of different things, finding what works and then doubling down madly on it.

And they are able to do that by virtue of their enormous resources. At first, for the first 20 years, it was the relationship with investors and how Wall Street allowed Amazon to lose a lot of money. Those days are gone, the company is very profitable and now it's just financing all of these experiments, expanding in all of these directions, figuring out what works and then doubling down on it. And that's a reason why there are lots of reasons to criticize Amazon, to regulate it, I think I get into those in the book, but when you look at the years ahead, this company is like a boulder running downhill, and I think it's hard to look at the competitive environment and judge who might slow this company down or even stop it.

Larry Bernstein: Our next speaker will be Dietrich Vollrath, he's going to talk about the lack of productivity in the service sector. Amazon is in a lot of service sectors, they're in the business of retail, they're in the grocery store business. How do you think about opportunities for improvements in productivity in the areas that it touches?

Brad Stone: Yeah, give me an example.

Larry Bernstein: Getting goods to people.

Brad Stone: Well, last week Amazon issued, or announced it was going to issue, \$18 billion in 40-year bonds. And they borrow money like this when it's cheap and the reason they do it and they don't have to do it, is to build more fulfillment centers closer to customers, to hire more of these middlemen transportation companies, probably to build more data centers. And what it means is, going back to the boulder analogy, they're getting closer to customers, they're going to deliver faster. They tried to make prime a one day proposition a year and a half ago, and then suspended that during the pandemic. But I think the economics of the business support

this kind of expansion, I think those deliveries are going to be ever quicker.

And what that means is, when we talked about convenience, selection and prices, convenience being one of the variables that always lagged, Amazon is solving that and pretty soon these deliveries are going to be ordering something, getting it on Amazon, is going to be just as convenient as going to the store. And depending on how you view that company, that's either an enormously appealing proposition or a very dangerous one.

Larry Bernstein: All right, thank you, Brad.