

Amazon: Balancing Customer Centricity With Employee Engagement

Context

By January 2017, the number of employees at e-commerce giant Amazon had surged to 341,000 full-time and part-time staff or “associates.” In the previous year alone, the company had added 110,000 employees, due largely to the company’s increase in fulfillment centers (FCs) around the world.

Amazon’s founder, Jeff Bezos, had always cited customer centricity as the key focus for the company. “Customer obsession is the very heart of our approach, and it’s energizing to see customers respond,”¹ stated Bezos on March 16, 2017, in a press release, thanking customers for its number one ranking in the American Customer Satisfaction Index (ACSI).

Ongoing Innovation

Founded in 1994 by Bezos as an online bookstore, Amazon was generating weekly sales of \$20,000 by its second year in operation. The company went public in May 1997, while recording sales of \$148 million. In the years that followed, Amazon moved beyond books to sell movies, toys, electronics, tools, video games and other merchandise. To reach its growing base of customers more quickly, the company began investing in distribution and customer service centers across the United States, the United Kingdom and Germany.

¹ Business Wire, “Amazon Thanks Customers for #1 Ranking in American Customer Satisfaction Index,” March 16, 2017. Available from: <http://www.businesswire.com/news/home/20170316005297/en/Amazon-Customers-1-Ranking-American-Customer-Satisfaction>.

This case was prepared by Larisa Tatge, case writer, under the supervision of Professors Jaume Ribera and Alejandro Lago, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. September 2017.

Copyright © 2017 IESE. This translation copyright © 2017 IESE. To order copies contact IESE Publishing via www.iesep.com. Alternatively, write to iesep@iesep.com or call +34 932 536 558.

No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means – electronic, mechanical, photocopying, recording, or otherwise – without the permission of IESE.

Last edited: 10/4/17



During the dot-com bubble, Amazon continued to grow its customer base. In November 2000, it launched Amazon Marketplace, which gave sellers the opportunity to sell both new and used items on Amazon's platform. In March 2006, it created Amazon Web Services, marking the company's entry into cloud computing, which by 2016 had grown into a \$10-billion business. In 2007, Amazon made the leap to hardware manufacturing with the release of the Kindle, a proprietary device for reading books and other publications. This was followed by the tablet/phone Kindle Fire in November 2011 and the personal assistant Echo in November 2015. This last product was developed in Amazon Lab126, and it was similar to Apple's Siri and Microsoft's Cortana assistants.

As it expanded its distribution footprint around the world, the company was moving forward with other diverse projects. These included drone deliveries, brick-and-mortar stores and new media ventures. On December 7, 2016, Amazon made its first commercial drone delivery to a shopper in Cambridgeshire, England. The event marked a milestone in the company's three-year-old initiative to use drones to deliver products directly to customers' homes.

After upending the traditional bookstore industry in the 1990s, Amazon opened its first brick-and-mortar bookstore in Seattle in 2015. This paved the way for other physical bookstores in cities such as San Diego, Portland, Chicago and Boston. Amazon also began working on the launch of drive-up grocery outlets and convenience stores. In another surprising move, Bezos purchased *The Washington Post*, the 140-year-old iconic newspaper, for \$250 million in 2013.

Extreme Customer-Centricity

In 2013, Bezos told journalist Charlie Rose: "I would define Amazon by our big ideas, which are customer centricity, putting the customer at the center of everything we do." This laser-sharp focus on the customer included:

- offering easy ordering and rapid delivery
- the use of data to personalize the shopping experience
- helping customers get the best deal

To ensure that employees kept customers' needs at the fore, Bezos had managers – including himself – attend two days of call-center training each year. The goal was for managers to adopt the Amazon mindset of listening to customers and understanding their needs.

Bezos also employed the "empty chair" approach to set the tone of meetings. Early on, he began bringing an empty chair to meetings to symbolize the presence of the customer and remind executives to keep customers in mind when making decisions.

All Amazon departments were data driven, based on the customer experience. This allowed Amazon to innovate and make decisions based on concrete evidence. In a *Forbes* interview, Bezos said, "We don't focus on the optics of the next quarter; we focus on what is going to be good for customers. I think this aspect of our culture is rare."

Another way the company accomplished customer-centricity was by having software developers "work backwards." This process involved writing press releases about envisioned



products before developers began programming. If the product benefits listed in the press release didn't sound compelling to customers, then the project would be scrapped.

As Bezos explained in a 2009 *Newsweek* interview: "We start with the customer and we work backward. We learn whatever skills we need to service the customer. We build whatever technology we need to service the customer."²

In December 2011, Amazon was able to fulfill Bezos's promise of delivering 99.9% of packages to customers on time before Christmas. This involved managing and transporting millions of packages around the globe.

Notably, Amazon's customer-centric approach also involved taking responsibility for mistakes. For example, in 2009 Amazon made the decision to remotely delete some books from users' Kindles after discovering their illegality. The move prompted an outcry among users of the device. Bezos sent out the following personal apology, which was believed to help keep many customers on board:

"This is an apology for the way we previously handled illegally sold copies of 1984 and other novels on Kindle. Our 'solution' to the problem was stupid, thoughtless, and painfully out of line with our principles. It is wholly self-inflicted, and we deserve the criticism we've received. We will use our scar tissue from this painful mistake to help make better decisions going forward, ones that match our mission.

"With deep apology to our customers,

"Jeff Bezos
"Founder & CEO
"Amazon.com"

Work Environment Questioned

Amazon executives said that employee engagement was essential for its customer-centric model to work.

On August 15, 2015, the *New York Times* published an investigative report about Amazon's work environment, alleging that the "company is conducting an experiment in how far it can push white-collar workers to get them to achieve its ever-expanding ambitions."³

The article, which included interviews with current and former employees, described a relentless workplace with "unreasonably high" standards. The report also noted that employees were penalized for taking time off for family issues, such as the birth of a child.

² Lyons, D. "Why Bezos Was Surprised by the Kindle's Success," *Newsweek*, December 20, 2009. Available from: <http://www.newsweek.com/why-bezos-was-surprised-kindles-success-75509>.

³ Kantor, J. and D. Streitfeld, "Inside Amazon: Wrestling Big Ideas in a Bruising Workplace," *New York Times*, August 15, 2015. Available from: <https://www.nytimes.com/2015/08/16/technology/inside-amazon-wrestling-big-ideas-in-a-bruising-workplace.html>.



“This is a company that strives to do really big, innovative, groundbreaking things, and those things aren’t easy,” said Susan Harker, Amazon’s top recruiter, in the article. “When you’re shooting for the moon, the nature of the work is really challenging. For some people it doesn’t work.”

The article also highlighted how employees were encouraged to be critical of their colleagues’ ideas in meetings and channel feedback on them to superiors. One former employee was quoted as saying, “You walk out of a conference room and you’ll see a grown man covering his face. Nearly every person I worked with, I saw cry at their desk.”

The following week, Jeff Bezos sent a letter to all Amazon staff, which also appeared in the *New York Times*. He wrote:

“The NYT article prominently features anecdotes describing shockingly callous management practices, including people being treated without empathy while enduring family tragedies and serious health problems. The article does not describe the Amazon I know or the caring Amazonians I work with every day. But if you know of any stories like those reported, I want you to escalate to HR. You can also email me directly at jeff@amazon.com. Even if it’s rare or isolated, our tolerance for any such lack of empathy needs to be zero.”

Bezos added, “I strongly believe that anyone working in a company that really is like the one described in the NYT would be crazy to stay. I know I would leave such a company.”

In October 2015, two months after the original *New York Times* article, Amazon’s Senior Vice President for Global Corporate Affairs Jay Carney published a rebuttal in a post on the website Medium. Carney criticized the newspaper for quoting biased sources and not being forthcoming with the company about the type of article they were planning to write before Amazon management agreed to participate.

In particular, Carney attacked the use of one key source, who had left the company after a short tenure, after being investigated for an attempt to defraud vendors and conceal it by falsifying business records, he said.

“The *Times* got attention for their story,” Carney said, “but in the process they did a disservice to readers, who deserve better. The next time you see a sensationalistic quote in the *Times* like ‘nearly every person I worked with, I saw cry at their desk,’ you might wonder whether there’s a crucial piece of context or backstory missing—like admission of fraud—and whether the *Times* somehow decided it just wasn’t important to check.”

A Tight Ship

Unlike many Silicon Valley ventures, Amazon did not offer its employees many perks. The company was famous for a demanding work schedule and rigorous talent recruitment. To ensure a cadre of motivated workers, Amazon paid them up to \$5,000 if they wanted to leave the company in a program called “Pay to Quit.”

“The goal is to encourage folks to take a moment and think about what they really want,” Bezos said in a letter announcing the program to employees in 2014. “In the long run, an employee staying somewhere they don’t want to be isn’t healthy for the employee or the company.”

In the wake of the *New York Times* exposé, Amazon launched a new internal communication system, called Amazon Connections. It posed daily questions to employees to get their responses on topics such as the work environment, job satisfaction, leadership and training opportunities.

Feedback was collected from the system and compiled in daily reports that were shared within the company. The program was first introduced at fulfillment centers, which were staffed mostly by blue-collar workers, and then expanded to other departments.

Through Amazon Connections, the company would be able to leverage real-time information to introduce positive changes in the organization. “Our goal is to help develop leaders who trust, remove barriers to excellence and make Amazon an inspiring place to work,” said the company’s description of the program.

Striking a Balance

In spite of success and noticeable growth, analysts have always considered that the company has failed systematically when delivering profits. The nonexistent profitability has been justified by Amazon’s managerial line as due to their strong focus on customers and the constant investment required to increase their geographical influence and offered services. In an interview at *Forbes*, Bezos said, “We don’t focus on the optics of the next quarter; we focus on what is going to be good for customers. I think this aspect of our culture is rare.”

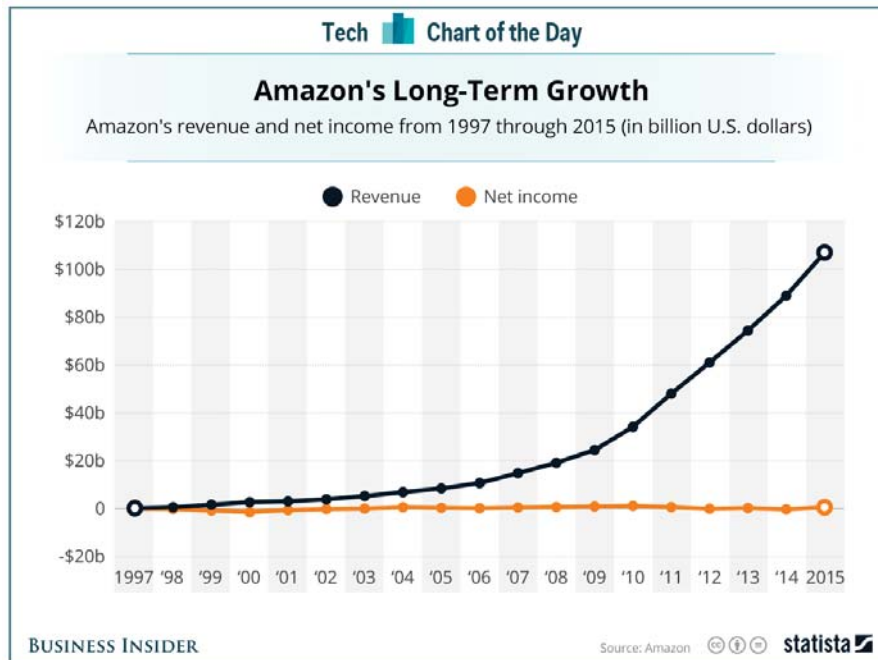
In February 2017, Amazon reported that its net income was skyrocketing, with revenue increasing by 22% in the fourth quarter of 2016 to \$43.74 billion. Amazon Web Services, the company’s cloud computing unit, reported year-over-year sales growth of 47% in net sales to \$3.54 billion. The company had been profitable for the seventh quarter in a row.

On February 2, 2017, Amazon announced it would create 100,000 new, full-time, full-benefit jobs in the United States over the next 18 months. The positions would be for all types of experience, education and skill levels. One of Amazon’s goals had always been to recruit and maintain the best and the brightest. Yet, as Amazon grew exponentially, the question lingered: Would the company’s approach to balancing employee engagement with customer centricity prove tenable in the long term?



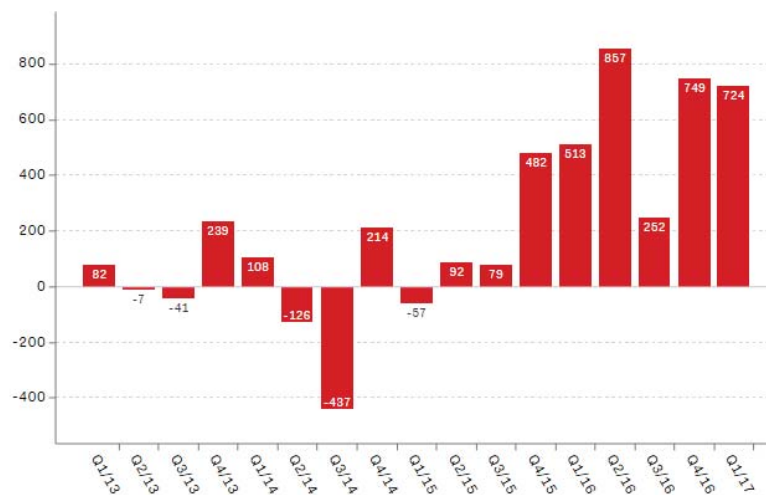
Exhibit 1

Amazon's Long-Term Growth and Profits



Amazon's Profit/Loss

Amazon's quarterly profit fluctuates wildly, but it's beginning to stabilize.



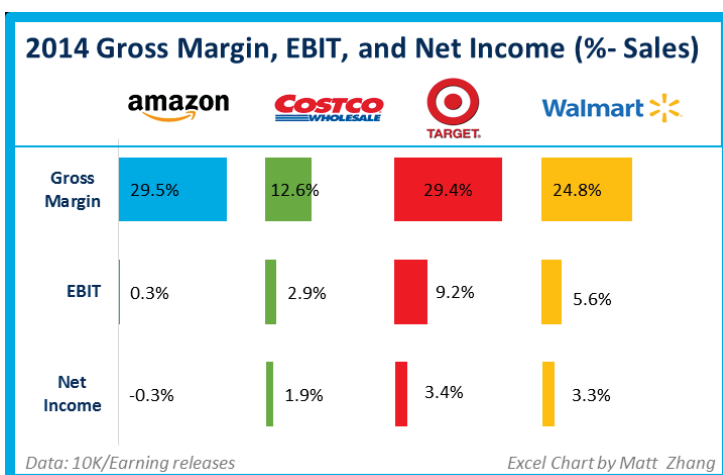
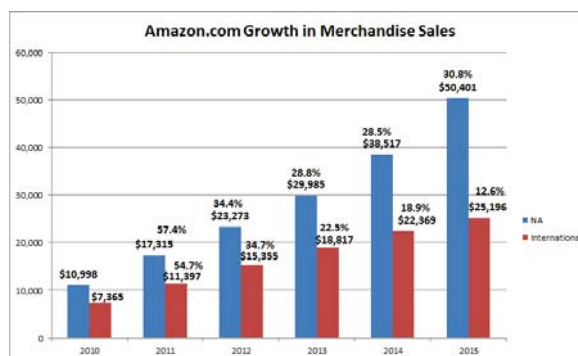
Source: [Amazon Investor Relations](#)
Credit: Research by Lindsey Smith

THE VERGE

Source: Information from Amazon Investor Relations, last accessed July 2017.

Exhibit 2

Amazon Versus Wal-Mart Stores

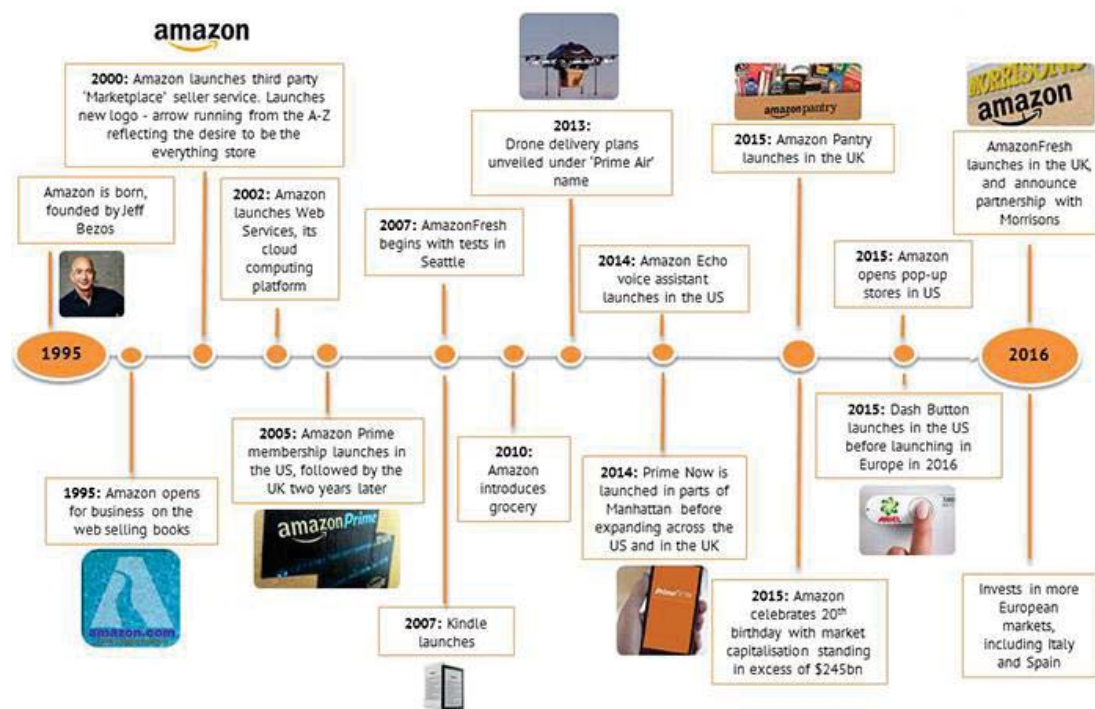


Source: The Motley Fool. 2017. *Chart Showing how Amazon.com is Crushing Wal-Mart*. [Online]. [Accessed July 2017]. Available from: <https://www.fool.com/investing/general/2015/10/19/1-chart-showing-how-amazoncom-is-crushing-wal-mart.aspx>.



Exhibit 3

Amazon Innovations Timeline



Source: T. Pickard, «Understanding Amazon in the UK», January 9, 2017. Available from: <https://www.igd.com/Research/Retail/Understanding-Amazon-in-the-UK>.

Exhibit 4

Amazon Organizational Chart



Source: The Official Board, «Amazon.com». Available from: <https://www.theofficialboard.com/org-chart/amazon-com>. Last accessed May 5, 2017.