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Testimony of

Paul Misener
Vice President, Global Public Policy
Amazon.com

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Good morning, Chairwoman Velázquez, Ranking Member Chabot, and members of the Committee. My name is Paul Misener, and I am Amazon.com's Vice President for Global Public Policy. Thank you for inviting me to testify on this important topic; I am delighted to respond to your specific requests to know how Amazon.com drives the growth of small firms and about the effect that small companies have on the economy.

Madam Chairwoman, I would like to offer you and your Committee three essential observations this morning. First, the online economy has evolved dramatically since its inception in the early 1990s, bringing unforeseen benefits to small businesses. Second, these benefits arise not only from the new markets that can be reached online, but also from the myriad retailing services now available online to small businesses by Amazon.com and others. And, third, the demographics of today's online economy can be

surprising, particularly with respect to the share of the online economy held by small businesses. With these observations in view, we may safely conclude that the online marketplace is a very important avenue through which small businesses may help stimulate the overall economy.

Before I describe the details of these three observations, Madam Chairwoman, please let me make a note on terminology. Throughout my testimony today I will refer to "small businesses," which I mean to include low sales volume sole proprietorships, partnerships, and corporations, all of which traditionally are considered "small businesses," as well as individuals making occasional sales outside of a defined or separate business. The key unifying characteristic of small businesses online is not their legal structure but, rather, that they sell at relatively low revenue volume.

EVOLUTION OF THE ONLINE ECONOMY

Madam Chairwoman, the Internet is a great enabler of small business. In its early days, the online economy was a haven for innovative, technically-savvy small businesses, and today it has evolved to become a crucial sales channel for all kinds of small businesses, not just those with technical expertise.

In the mid-1990s, Amazon.com, Google, eBay, Yahoo!, and other currently well-known Internet brands were obscure small businesses. They had in common the technical skills that enabled them to provide content-based services using the Internet's physical infrastructure and a new online software application called the World Wide Web. It's no accident that the founders of these companies were engineers. They not only needed a business vision, they had to take a technically complex foundation – the

Web – and turn it into something useful to non-technical people. These small business owners overcame the technical challenges of putting up and running a website, attracting consumer traffic to the site and, in a variety of ways, facilitating retail transactions. At the time, none of this was easy.

But, as these small businesses grew into the service providers they are today, they vastly simplified the task of getting small sellers online. Indeed, these companies now provide services so that today's small businesses need not be technically savvy to make good use of the Internet. Today's small businesses online need not understand how the underlying Internet technology works nor even directly deal with it.

Several different ecommerce business models now coexist and vigorously compete on the Web. One model is traditional retail; most often by so-called "clicks and mortar" companies that have both a physical store and a retail website. There also are a "pure play" online traditional retailers, like Amazon.com's original business.

Another important business model is "search" retail, whereby companies like Google, Yahoo!, Microsoft's MSN, and AOL provide online paths, preferential access, and advertising to thousands of retail businesses.

A third key model is "platform" retail, whereby large companies such as Amazon.com and eBay provide ecommerce services to other companies, both large and small. Online transaction services, such as Amazon Payments, Google Checkout, eBay's PayPal, and Yahoo! Wallet are also examples. Through Amazon.com's platform, over a million sellers – most of them small businesses and individuals – now have easy access to over 75 million active consumer accounts worldwide.

In sum, the online economy has evolved dramatically since its inception in the 1990s, bringing unforeseen market reach and other benefits to small businesses, which no longer need technical expertise to sell on the Internet.

SERVICES AVAILABLE ONLINE

The benefits of the online economy arise not only from the new markets that can be reached online, but also from the myriad retailing services now available online from Amazon.com and others.

You have asked for an indication of how my company drives the growth of small firms. Simply put, Amazon.com strives to provide our small business seller customers a wide variety of retail tools so they can concentrate on the areas of their business they know and like best.

For example, with "Product Ads on Amazon," small businesses can easily and efficiently advertise on Amazon.com the specific products available on their own websites. For small businesses that don't have their own websites, we offer several types of services like "Selling on Amazon," which allows small businesses to post their inventory on our website without any individual item listing fees. When an item sells, we handle the transaction including credit card processing and, very importantly, payment fraud protection, and the small business simply ships the item to the buyer.

Through our "WebStore by Amazon" service, we even create and run complete ecommerce websites for small businesses who may not have the time or interest to do it themselves. One delicious example is the Jelly Belly Outlet, www.jellybellyoutlet.com, the famous purveyor of gourmet jelly beans.

And, whether or not a small business has a website, we can provide the global reach of our physical distribution network through our "Fulfillment by Amazon" service. Small businesses can simply send us their inventory, which we store in our warehouses and, then, when the small business sells an item – on their website, on our website, by phone, or even in person – we pick it out of our warehouse shelves, pack it safely, and ship it to the buyer. In this way, we spare small businesses the hassle of inventory management and shipping and provide their customers a reliable fulfillment experience. The company named JumpSnap, at www.jumpsnap.com, which sells the "Ropeless Jump Rope" and other exercise supplies, is a fit example of a small business using Fulfillment by Amazon.

Within the past few years, we also have begun to provide advanced computer functions, such as Amazon Simple Storage Service, which allows small businesses to avoid investing in large digital storage devices that tend to be expensive and time-consuming to maintain. We also provide computer database and computation services.

As for small businesses with media products, we make additional services available. Amazon employs new business models and technologies that can help meet consumer demand for books, music, and video in the "long tail" of the market and, in doing so, provide new outlets for individual creators and small publishing businesses. Traditionally, the only way to begin to serve the media content market was to make significant up-front investments to produce and ship large numbers of physical products to many brick and mortar stores, and hope that these products eventually would sell. This is a risky approach, of course, and, even if a project succeeds, it requires significant up-front investments in production and shipping.

One simple way creators and small publishers can use our retail platform to sell into the long tail of the market for books, music CDs, and DVDs is through our "Amazon Advantage" retail platform program in which they need to print or manufacture then ship to us only a few books or discs. Small publishers then can offer these few copies to the entire Amazon.com base of more than 75 million active customers. Clearly, the ratio of potential consumers to the number of products that must be produced to enter the market is far lower on Amazon.com than through traditional publication channels that end in brick and mortar stores.

Another, even lower-cost and lower-risk way for individual creators and small publishers to enter the market is through our "on demand" manufacturing services, which are built on two innovative new technologies: print on demand and disc on demand. As its name suggests, print on demand actually allows us to produce a paperback or hardcover physical book *after* a customer orders it, and have it delivered within days. Likewise, disc on demand allows us to manufacture and deliver music CDs or video DVDs within days of a customer order.

The up-front costs to small publishers of such on-demand books and discs are limited only to providing Amazon the digital files and some bibliographic information that we post on our website's description of the product. We then take care of sales, manufacturing, shipping, and customer service. Amazon even offers print layout and cover design. Small publishers thus have no need for high up-front investments, additional manufacturing infrastructure, predictive printing, or inventory management.

Digital delivery is, of course, another low investment way to get media products to consumers. We have rapidly growing digital music and video distribution services –

Amazon MP3 and Amazon Unbox – that allow individual creators and small publishers to sell their audio and video works online without ever reducing them to physical form. Moreover, as you may have heard, we also have introduced the Amazon Kindle for authors and publishers of books.

The Kindle is a portable reading device that can wirelessly download books, blogs, newspapers, and magazines. Authors and small publishers easily can attract an audience and distribute their works without the up-front investments in printing and physical distribution that often act as significant barriers to entry.

We designed Kindle to provide an exceptional reading experience. Thanks to "electronic paper," a revolutionary new display technology, reading Kindle's screen is as sharp and natural as reading ink on paper, with nothing like the strain and glare of a computer screen. We wanted Kindle to be completely mobile and simple to use for everyone, so we made it wireless; no personal computer is needed. Using the same radio network as advanced cell phones, we deliver written content without the need to find a "hotspot," and without confusing wireless service plans, yearly contracts, or monthly bills. Newspaper subscriptions are delivered automatically and wirelessly each morning, and most magazines arrive before they hit newsstands.

To reiterate, individual authors and small publishers are able to publish on Kindle without the usual barriers to entry. On my own Kindle, I have several books from individual authors and publishers who don't need to have any physical books in print.

In sum, Madam Chairwoman, there are myriad online and online-related selling services available to small businesses today, and Amazon.com strives to be the most customer-centric provider of such services.

DEMOGRAPHICS OF TODAY'S ONLINE ECONOMY

The demographics of today's online economy can be surprising, particularly with respect to the share of the online economy held by small businesses. You have asked for about the effect that small companies have on the economy. In response, I respectfully draw to your attention to two important observations.

The first key observation is that, as we said from the very start of our company, online retail will not entirely supplant physical stores. And we've been proven right. Even after more than a decade of ecommerce, and despite the wild predictions of the late 1990s, still well over 90% of retail sales remain *offline*. There are good reasons, of course, including that physical stores inform our senses of touch and smell and provide opportunities for socializing in person. Nonetheless, *online* retail has been an area of continuing growth, including for small businesses.

The second key observation is that the share of the online economy held by small businesses is surprisingly large because it is systematically undercounted in surveys, including by the U.S. Census. One need only look at rosters of the top online sellers to understand how small business sales are systematically missed. For example, the *Internet Retailer*, an important trade publication, annually publishes a list of the top few hundred retailers by revenues. Amazon.com is first on the *Internet Retailer*'s 2007 Top 500 list, which cites our nearly $11 billion in 2006 revenue. Yet, not all of that revenue is from sales by Amazon's retail business. An important and growing part of our business is from service fees on sales made with our help by smaller sellers. Only these fees are included in the revenue total, not the actual value of the sales.

Moreover, pure platform and search service providers like eBay and Google don't even make the roster, in spite of the fact that, in the same year (2006) that Amazon posted less than $11 billion in revenues, eBay transacted a whopping $52 billion through its site. That is, little if any of the $52 billion of online sales through eBay are captured by the *Internet Retailer*'s assessment of ecommerce. Also missing are other billions of dollars transacted by small businesses online with the help of service providers such as Google, Yahoo!, Microsoft, and AOL.

U.S. Government surveys raise similar concerns. The U.S. Census Bureau's quarterly "eStats" reports measure the size of electronic commerce in part from the quarterly reporting of publicly traded firms with revenues measured in the millions of dollars. Obviously, most small businesses online would be missed under these criteria. Although every five years the Bureau is able to supplement these statistics with a deeper analysis of smaller companies, it still may go down only to those with about $1 million in revenue per year. Therefore, the government's ability to capture sales information from activities by small businesses online is very limited.

The upshot of this significant undercounting of sales by small businesses is that the proportion of ecommerce by small business is greatly underestimated; the sales by sellers with annual revenues on the order of a hundred thousand dollars likely could account for as much as a quarter of all consumer ecommerce in the U.S. and, of course, assuming a higher revenue threshold would reveal an even greater fraction of sales by sellers considered small businesses. Obviously, the surprisingly high portion of ecommerce conducted by small businesses means that such businesses can have a greater effect on the online economy than may be generally assumed.

CONCLUSION

In conclusion, Madam Chairwoman, the Internet is a great enabler of small business, not just for companies like Amazon.com, which not long ago was a small business itself, but also for today's small businesses, which need not be technically savvy to participate fully in ecommerce. The online economy has evolved dramatically since its inception in the early 1990s, bringing unforeseen benefits to small businesses. These benefits arise not only from the new markets that can be reached online, but also from the myriad services now available online to small businesses by Amazon.com and other providers. Lastly, the demographics of today's online economy can be surprising, particularly with respect to the large share of the online economy held by small businesses. With these observations in view, we may safely conclude that the online marketplace is a very important avenue through which small businesses may help stimulate the economy.

Thank you again for inviting me to testify, I look forward to your questions.

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