Corporate ambitions

Amazon, the world's most remarkable firm, is just getting started

Amazon has the potential to meet the expectations of investors. But success will bring a big problem

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Yet Amazon's shareholders are working on the premise that it is just getting started. Since the beginning of 2015 its share price has jumped by 173%, seven times quicker than in the two previous years (and 12 times faster than the S&P 500 index). With a market capitalisation of some $400bn, it is the fifth-most-valuable firm in the world. Never before has a company been worth so much for so long while making so little money: 92% of its value is due to profits expected after 2020.

That is because investors anticipate both an extraordinary rise in revenue, from sales of $136bn last year to half a trillion over the next decade, and a jump in profits. The hopes invested in it imply that it will probably become more profitable than any other firm in America. Ground for scepticism does not come much more fertile than this: Amazon will have to grow faster than almost any big company in modern history to justify its valuation. Can it possibly do so?

It is easy to tick off some of the pitfalls. Rivals will not stand still. Microsoft has cloud-computing ambitions; Walmart already has revenues nudging $500bn and is beefing up online. If anything happened to Jeff Bezos, Amazon's founder and boss, the gap would be exceptionally hard to fill. But the striking thing about the company is how much of a chance it has of achieving such unprecedented goals (see article (http://www.economist.com/news/briefing/21719461-investors-think-amazon-going-grow-faster-longer-and-bigger-almost-any-firm)).

A new sort of basket-case

This is largely due to the firm's unusual approach to two dimensions of corporate life. The first shipping and streaming video and music—which entice more shoppers. Similarly, the more customers use AWS, the more Amazon can invest in new services, which attract more customers. A third virtuous circle is starting to whirl around Alexa, the firm's voice-activated assistant: as developers build services for Alexa, it becomes more useful to consumers, giving developers reason to create yet more services.

So long as shareholders retain their faith in this model, Amazon's heady valuation resembles a self-fulfilling prophecy. The company will be able to keep spending, and its spending will keep making it more powerful. Their faith is sustained by Amazon's record. It has had its failures—its attempt to make a smartphone was a debacle. But the business is starting to crank out cash. Last year cashflow (before investment) was $16bn, more than quadruple the level five years ago.

If Amazon's approach to time-frames is unusual, so too is the sheer breadth of its activities. The company's list of current and possible competitors, as described in its annual filings, includes logistics firms, search engines, social networks, food manufacturers and producers of "physical, digital and interactive media of all types". A wingspan this large is more reminiscent of a conglomerate than a retailer, which makes Amazon's share price seem even more bloated: stockmarkets typically apply a "conglomerate discount" to reflect their inefficiencies.

Many of these services support Amazon's own expansion and that of other companies. The obvious example is AWS, which powers Amazon's operations as well as those of other firms. But Amazon also rents warehouse space to other sellers. It is building a $1.5bn air-freight hub in Kentucky. It is testing technology in stores to let consumers skip the cash register altogether, and experimenting with drone deliveries to the home. Such tools could presumably serve other customers, too. Some think that Amazon could become a new kind of utility: one that provides the infrastructure of commerce, from computing power to payments to logistics.

A giant cannot hide

But as it grows, so will concerns about its power. Even on standard antitrust grounds, that may pose a problem: if it makes as much money as investors hope, a rough calculation suggests its earnings could be worth the equivalent of 25% of the combined profits of listed Western retail and media firms. But regulators are also changing the way they think about technology. In Europe, Google stands accused of using its clout as a search engine to extend its power to adjacent businesses. The comparative immunity from legal liability of digital platforms—for the posting of inflammatory content on Facebook, say, or the vetting of drivers on Uber—is being chipped away.

Amazon's business model will also encourage regulators to think differently. Investors value Amazon's growth over profits; that makes predatory pricing more tempting. In future, firms could increasingly depend on tools provided by their biggest rival. If Amazon does become a utility for commerce, the calls will grow for it to be regulated as one. Shareholders are right to believe in Amazon's potential. But success will bring it into conflict with an even stronger beast: government.