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## Amazon 'Primes' Pump for Loyalty

By STU WOO

As [Amazon.com](http://Amazon.com) Inc. battles traditional retailers such as [Wal-Mart Stores](http://Wal-Mart.com) Inc. and digital rivals like [Apple](http://Apple.com) Inc.'s iTunes store, the company is raising its bet on its Amazon Prime customer-loyalty program.



Associated Press

Amazon CEO Jeff Bezos unveiled the Kindle Fire on Sept. 28.

Prime is so crucial to the Seattle-based company that it is willing to lose hundreds of millions of dollars a year on the program, by some analysts' estimates. Until this year, Prime offered only quick shipping for \$79 a year. But the online retailer has added services to Prime while keeping the price unchanged as a means of keeping customers loyal to Amazon's more-profitable operations.

The cost of Prime underscores the willingness of Amazon Chief Executive [Jeff Bezos](http://Jeff-Bezos.com) to shell out money as he continues the company's transition from an online retailer of paper books, to an Internet megamall that sells an array of products from various companies, to a seller of digital goods and even its own devices, such as the Kindle Fire tablet computer. Forrester

Research estimated that about five million Fires, which begins shipping Tuesday, will be sold by the end of January. Amazon declined to reveal the Fire's sales.

**Amazon Prime members enjoy:**

- FREE Two-Day Shipping
- Instant streaming of movies & TV shows
- Instant access to thousands of Kindle Books

**amazonPrime**

- FREE Two-Day Shipping on millions of items
- No minimum order size
- Unlimited instant streaming of thousands of movies and TV shows with Amazon Instant Video
- A Kindle Fire is yours for free each month from the Kindle Owner's Lending Library

**Start Your Free Trial**  
One Month Free Trial

After your free trial, Amazon Prime is just \$79/year

Already a member? Sign in

Amazon.com

Prime.com

Tell your friends

**By Your Viewing History**

Shows that you've watched

Shows that you've watched

Shows that you've watched

Amazon is raising the bet on its Prime program, beefing up and willing to lose hundreds of millions of dollars a year on the service to win customer loyalty. WSJ's Stu Woo has the story on today's Digits.

### Loss Leader

Amazon Prime's price has remained at \$79 a year as it added services.

Service started in 2005, including two-day shipping.

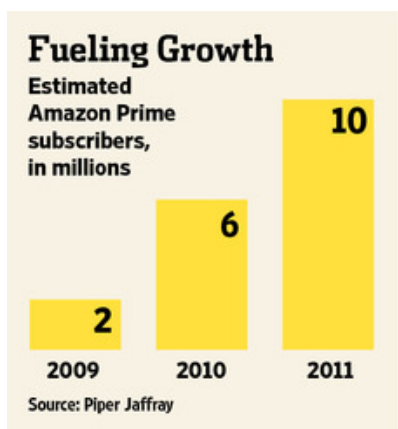
Movie and TV streaming was added in February.

Earlier this month Amazon announced a digital book-lending service for Prime customers who also own the company's Kindle reading or tablet devices. A customer can keep a title for an unlimited period but is limited to borrowing one book a month and one at a time.

Amazon is paying flat fees to some publishers for the rights to lend books, but for some titles the company is buying a digital copy every time a customer borrows a book. The best-selling "Hunger Games" books—with a wholesale price of about \$8, or half of retail, for each title in the trilogy—are some of the titles Amazon will buy for borrowers. Analysts estimated that there are several million Kindle-toting Prime subscribers, meaning the lending service could cost Amazon tens of millions of dollars if customers flock to the novels Amazon is buying. Amazon said the lending service has about 5,000 titles so far.

Earlier this year, Amazon added a digital video service for Prime customers. The video catalog, which now includes more than

Book lending was added this month for Kindle owners.



13,000 movies and television episodes, required the retailer to strike deals with studios and has cost Amazon an estimated \$350 million this year, said Piper Jaffray analyst Gene Munster.

Amazon appeared to be keeping the size of the video and book-lending catalogs low to avoid cannibalizing sales at Amazon's website, said Fiona Dias, vice president for Shoprunner Inc., which runs a shipping program similar to Prime for retailers that include Toys 'R' Us Inc. and [American Eagle Outfitters Inc.](#)

"They're going deeper [with Prime] on the thesis that if they can make [customers] more loyal, they can make more profit, even if they have to subsidize," said David Selinger, a former Amazon executive who didn't work directly on Prime.

Amazon is unlikely to raise Prime's price because it drives business to the retailer, said Forrester analyst Brian Walker, who is a former Amazon executive.

Amazon declined to comment on its strategy or to release figures for Prime except to say that it has "millions" of subscribers.

More

[Amazon Ships New Kindles Early](#)

Mr. Munster estimated that Amazon spends more than \$90 a year for each Prime customer, losing \$11 annually for each subscriber. Of the \$90, \$55 comes from shipping costs and \$35 comes from acquiring digital video content. The book-lending service raises those costs higher still. Amazon also loses money in other areas. Mr. Munster estimated that Amazon sells each Kindle model at a loss of \$10 to \$15.

Such spending has crimped Amazon's profit. The company said its overall operating margin shrank to 0.7% in the third quarter from 3.5% a year earlier as operating expenses rose 48% to \$10.8 billion.

"Investors get tired of this and it could end up imploding [Amazon's] market cap" of \$99 billion, Mr. Munster said. Amazon's stock is up 21% since the start of the year, after rising \$6.60, or 3.1%, Friday to close at \$217.39 on the Nasdaq Stock Market.

Still, analysts said Amazon can offset those losses because of its highly profitable businesses, such as getting fees from other merchants who sell through Amazon's website and by selling computing power and storage to other companies.

Losing money on Prime is worth it to Amazon because the service creates loyalty to the company. Mr. Munster estimated that the service will have 10 million subscribers by year-end. Prime was started in 2005, offering customers unlimited two-day shipping. Amazon ran the risk that customers frequently would buy, say, \$2 items such as toothpaste and have shipping expedited, putting Amazon on the hook for shipping costs on inexpensive items.

That didn't happen, said Ms. Dias, of rival Shoprunner. Instead, she estimated that after joining Prime, members tripled the amount of money they spent on Amazon to \$1,500 a year. She estimated up to 40% of Amazon's domestic revenue, which totaled \$18.7 billion in 2010, comes from Prime members.

Prime is likely to get another boost when Amazon begins shipping the Kindle Fire. The \$199 tablet comes with a free 30-day trial of Prime.

Kelly Mellen, a stay-at-home mom in Marietta, Ga., said she signed up for Prime a year ago, primarily to avoid holiday crowds at the mall.

"Then it blossomed into book shopping because my kids like to read," the 37-year-old said. Now, "I buy coffee and buy shoes and I recently bought a necklace."