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# Ceaseless Innovation



By [Karan Girotra](#) , INSEAD Assistant Professor of Technology and Operations Management

## **Amazon's latest reinvention demonstrates its ability to constantly challenge its business model.**

Amazon.com is in the headlines again because it started [Sunday package deliveries in several large cities](#). This offering follows the company's recent strategic decision to offer same day delivery to most US addresses. As a part of this strategy, the company is drastically increasing the number of warehouses all around the US.

As we discuss in [our forthcoming book](#) and this [recent post](#), Amazon is in a class of its own when it comes to thinking about its business model. We are all accustomed to new offerings from Amazon.com: in fact, since its inception in 1995, Amazon has fundamentally changed its business model several times. At its inception, Amazon's operation was organised around a "sell all, carry few" business model: while offering more than a million books it actually stocked only about 2,000. The remaining titles were sourced through several arrangements but predominantly by "drop-shipping": Amazon simply forwarded customer orders to book wholesalers or publishers, who then shipped the products directly to consumers using Amazon's packaging materials and labels.

As the scale of Amazon's operations grew, its catchment area became larger than that of many publishers or distributors, who, it turns out, were not that good at shipping goods to individual consumers. And as online retail matured, it became harder to dominate the space based on product selection alone. Although Amazon was still ahead of bricks-and-mortar retailers in the breadth of the selection—in many categories, not just books—other Internet retailers adopted variants of drop-shipping and were able to offer similarly wide and deep stockless product availability.

All of these advances led to a reversal of the “sell all, carry few” business model, which morphed into “sell all, carry more.” This is when Amazon drastically expanded the number of warehouses to more than 10 around year 2000 and started stocking most products that it sold. The focus shifted to a business model built around excellent delivery performance and efficient logistics. Customers were amazed at how quickly their orders arrived on the doorstep.



Amazon did not stop reinventing its business model here. In 2006 it went further and unveiled a program called Fulfillment by Amazon, whereby independent sellers could use Amazon's warehouse network to fill orders and delegate to Amazon their logistics-related decisions. Under this new model, Amazon essentially became a wholesaler of goods sold by many much smaller virtual storefronts. What the distributors and publishers, in the aggregate, were to Amazon in its early days, now Amazon was to the participants in its fulfillment-for-hire program. What used to be outsourced became the core proposition and strength.

Amazon's recent decision to further develop its fulfillment capabilities (by spending close to **\$14 billion to build about 50 new warehousing facilities**) to bring a large fraction of the US population in the same day delivery catchment area reflects that, for Amazon, the Internet retail model has now come full circle.

The moral that we draw from this tale is that smart businesses like Amazon.com develop ways of constantly questioning what they do. Business models and the advantages that flow from them are



transient. What is a competitive strength today might be a burden tomorrow. From the time he founded the company, Amazon CEO Jeff Bezos was aware that its business model might become outdated. The need to counteract the effects of growth-induced stagnation and confront irrelevance of existing business models was thus embedded in Amazon's DNA.

If only more companies would do the same. Top managers spend countless hours analyzing the financial statements of their company; they would be well advised to do the same with their business model. This isn't going to be easy, especially for young companies; it takes real brass to turn against the founder's wisdom. But Amazon teaches us that a company can't afford to sentimentalise the icons of its past: it needs to be disciplined about challenging and breaking its existing business models.

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