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5 lessons you can learn from Amazon's Jeff Bezos, soon to be Earth's richest man

by Matthew Lynn

It might happen tomorrow. It could take until the end of the week. Heck, it might even take until the end of the month. But any day now, Amazon founder Jeff Bezos will become the world's richest person.

After yet another powerful set of results, and yet another surge in the company's share price, Bezos is a mere $US5 billion ($6.7 billion) away from Microsoft founder Bill Gates and likely to overtake him very soon.

True, on one level, the "world's richest man" is just a statistical footnote of no great significance. On another, however, the title sets a role model that entrepreneurs and business leaders around the world aspire to.

After all, if making more money than anyone else doesn't tell you they are doing something right, it is hard to know what might. So what lessons can we learn from Bezos's rise to the top of the pile?

The rising value of Bezos's net worth has been almost as relentless as the hard sell of Amazon Prime memberships over the past few years.

His stake in the web giant he founded slightly over two decades ago is now worth $US81 billion. In the past five years, Amazon's share price has more than quadrupled, rising from $US220 to more than $US900 as the company powers into new industries and markets.

He has already overtaken Warren Buffett and Amancio Ortega, the Spanish founder of Zara owner Inditex, to become the world's second richest. It will only take a few more dollars on the share price for him to race past Gates - and given the relatively stagnant performance of his Seattle neighbour, that seems just about inevitable.

Although there were times when Gates was briefly overtaken by Buffett, and also for a few weeks by Ortega, Gates has hung onto that title for a long time. He became the world's richest man all the way back in 1995, when it took a mere $US12.9 billion to take that slot.

In the past, the title has been held by tycoons such as John D Rockefeller and Andrew Carnegie, or indeed, if you want to go back far enough, by Musa I of Mali, the 14th-century African king, who many historians now reckon was the richest person of all time, with a net worth of $US400 billion in today's money.

After 22 years, however, the baton appears about to pass onto a new man. So what are the lessons that every business - and investor for that matter - can learn from Bezos? Here are five of the most important.

1. Think big

Amazon was started in 1994 as an online books retailer. But books were only chosen because Bezos could see they were a relatively easy way into online retailing. They come in standard sizes, you don't need to try them on, they fit easily into parcels, and there was plenty of space to compete on choice and price. But its ambitions always went way beyond that. As it moved into CDs, DVDs, and then just about everything, it became clear that Bezos wanted Amazon to be the biggest retailer in the world. He was thinking big right from the beginning - and working out the best starting place to get to his ultimate destination.

2. Keep innovating

Amazon is now far more than just an online retailer. It has built a massive cloud computing business that serves some of the biggest web companies in the world. It is making films and TV series for its Prime streaming service. It has developed publishing, physical shops, grocery sales, own-label products, and drone delivery systems. It is rare that more than a few weeks go by without Amazon trialling something or other - right now it is making a huge push with its Alexa voice-activated assistant. Whatever it does, it invariably brings something new to it - for example, shops with no check-out staff. Most companies come up with one or two good ideas - Google's parent Alphabet has created both the search engine and the Android operating system - but Amazon comes up with dozens of them. That is hard to emulate - but it is an incredibly powerful model if you can get it right.

3. Don't fret about failure

As you might expect for a company that is always trying out new stuff, Amazon also has plenty of flops. Its smartphone was a complete turkey - it cost $US170 million in investment, but has made no progress so far. Its web payment service went nowhere, and so did Amazon Destinations, its travel unit. Askville, its questions and answers service, was shut down after several years of investment, and Amazon Local was no match for competitors such as Groupon. But so what? Bezos accepts that if you don't try out lots of stuff, you won't ever have more than one or two businesses. He just moves on to the next one.

4. Profits matter much less than market share

Amazon appears to hardly care whether it makes any money. It is interested in moving into new markets, and dominating the ones where it has already established itself. Profits will take care of themselves. It is not quite as relentlessly unprofitable as it used to be - it has actually made money for eight quarters in a row now - but its overall margins are wafer-thin given its vast size. Investment in expansion is far more useful than racking up cash in the bank, like Apple, or returning it to shareholders through dividends or stock buy-backs, like just about every other big company. Investors love it - and are rewarded via the share price.

5. Forget acquisitions

It would be wrong to say that Amazon doesn't buy companies. It paid $US1.2 billion for the online shoe shop Zappos in 2009 and $US900 million for the video gaming streaming site Twitch in 2014. There have been a steady stream of agreed takeovers. But they are all small-scale stuff given the size of the company. It is clearly determined to take on Netflix in content, but it is spending massive sums on its own programmes rather than bidding for its rival.

Likewise, it's trying to compete with Spotify in music, and Sainsbury's and Tesco in groceries, rather than taking them out in a bid. Most acquisitions destroy value. It is far better to build your own rival from the ground up.

Amazon is far from perfect. It can ride roughshod over the competition, and it can be difficult place to work. But with its relentless drive to innovate and create new products, there could be many worse role models for entrepreneurs and business leaders.

In his annual letter to shareholders last month, Bezos urged people to "experiment patiently, accept failures, plant seeds, protect saplings, and double down when you see customer delight".

That formula won't work for everyone. But it is about to make Bezos the richest man in the world - and any business could do a lot worse than follow that formula.

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