**The Economist explains**

**Why investors are so keen on Amazon**

**Can the web giant really live up to expectations?**

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AMAZON is now the world’s fifth most valuable listed company. Yet investors and the company operate on an almost unfathomable premise: Amazon is just getting started. Morgan Stanley expects that the company’s revenue will rise from $136bn last year to more than $500bn by 2025. That would be unprecedented. No company of Amazon’s size has ever grown so fast for so long. If Amazon even comes close to achieving this, the implications for consumers and other businesses would be profound. What is it about Amazon that gives rise to such optimism?

In an age of short-termism, Jeff Bezos, Amazon’s founder, prefers steady investment to drive future growth. Shareholders support him because, despite a few failures, Amazon’s investments have generally been successful. Amazon’s e-commerce site and Amazon Web Services (AWS), which provides cloud computing, both benefit from virtuous cycles. The more sellers use the e-commerce site, the more buyers it attracts, the more Amazon invests to improve its offerings, which lures more sellers and buyers. Similarly, the more AWS invests in software (more than 1,000 new tools last year), the more enticing it becomes for developers and corporate customers, the more it can invest, which makes companies ever less likely to move their data.

Some of the best investments have begun by supporting Amazon’s existing business, which then evolved to serve other companies, creating a new virtuous cycle. The most famous example is AWS itself, which powers e-commerce and has become Amazon’s most profitable division. In 2000 the company decided to let other sellers use its e-commerce site to peddle goods. Amazon now offers sellers all kinds of services, from advertising to warehousing and shipping, to help boost their sales. Amazon takes these fees and reinvests them to propel further growth. Together, these virtuous cycles amount to a commercial tornado. Year after year, Amazon spends and gains power, an expanding collection of services that sweep up more and more customers.

In March Amazon announced it would buy Souq, an e-commerce site in the Middle East, and open two grocery stores in Seattle. It added new cities to its Prime Now programme—as part of its Prime subscription, which originally included just two-day shipping, Amazon now offers two-hour shipping as well as other perks, such as streaming video. These investments are a boon for consumers: Amazon continues to set new standards for convenience and service. For competitors, Amazon is a nightmare. Its current and possible rivals, disclosed in annual filings, include television producers, logistics firms and clothing manufacturers. Amazon may not meet investors’ unprecedented expectations. But if it even comes close, it threatens to upend a long list of industries.

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