Daily Update: Cloud First, Jet.com Taking on Amazon, A Teenager’s View on Social Media Follow-Up

11-14 minutes

Good morning,

I’m writing this update on a plane headed to Beijing for tomorrow’s Xiaomi announcement. My plan is to write about the experience of the keynote for tomorrow’s Daily Update, and then hopefully I’ll have a special treat for Friday – stay tuned.

In addition, please excuse any delays in response or on the message board for the next few days. I’ll do my best to keep up.

On to the update:

Cloud First

I added what I think was an important footnote to yesterday’s article Mobile First (this wasn’t in yesterday’s email):

> Microsoft’s “Mobile First Cloud First” strategy makes much more sense now, no?

While the praise for Microsoft was earnest, I was attempting to highlight a point that I’m afraid I made far too subtly. Specifically, an essential, enabling component of Mobile First is the cloud. Nearly everything we do on our phones is enabled by a cloud service, and all of those cloud services are increasingly built with a mobile application as the primary consideration. The implication of that, then, is that if the PC application is secondary, it will have many of the characteristics of the mobile application. This includes the assumption that everything essential happens over the network. And thus my conclusion:

> In this world, a Mobile First world, what exactly is the point of a port?

More prosaically, the key developments that reduced the need for ports for many if not most people (but not all) was the fact that iPhones – which already displaced things like iPods – no longer require iTunes (iOS 8 upgrades notwithstanding, and Android of course has never needed a PC), and more importantly, the fact that the phone camera is now most people’s primary camera. There just isn’t a pressing need for most people to use a port regularly.

True, there are all kinds of legacy applications, including printers, USB thumb drives, wired mouses, etc., but they all have clear wireless alternatives and Apple has never been the sort of company to wait around for the market to evolve. And, as I noted in the article, they’re happy to sell folks a MacBook Pro if they really need the expandability.

The truth is, it’s easier to live without this stuff than you might think, even if you are an advanced user: I did exactly that for two months during the time I left Microsoft, moved to Taiwan, until I started at Automattic; my only PC was a Chromebook.

I wrote early last year that the way to think about the Chromebook was as something that was similar to an iPad: both are appliance-like devices complement your phone; they're not primary. What I was trying to point out with regards to the rumored MacBook Air is that it's in nearly the same class. Sure, it's running OS X, but the way Apple likely intends it to be used is as an adjunct to the device that your life revolves around – your phone. And, of course, the connection is the cloud.

I know that this is really hard to grok, and perhaps I was wrong to even use the MacBook Air as the hook for my piece for that reason. But at the same time, that's exactly why it's such a powerful example: in a Mobile First world *a PC is an accessory.*

Jet.com Taking on Amazon

From Recode:

> As far as hype goes, Jet.com is near the top in the e-commerce industry right now. Founded by the guy behind Diapers.com, the company has raised $80 million in investments, and it hasn't even launched yet. Mid-level employees have joined without knowing exactly how the shopping site will work. A lot of that has to do with the trust both groups have in Jet's CEO Marc Lore, who previously sold Diapers.com parent company Quidsi to Amazon for about $550 million.
>
> At a high level, Jet is trying to reinvent the Costco membership club model for the Web. Jet will be a marketplace where retailers like TigerDirect.com and hundreds of others, big and small, shop their wares. Jet will sell everything from sporting equipment to detergent to cereal to sneakers.
>
> To shop on Jet, customers will have to pay a $50 annual fee. In exchange, Jet promises to bestow on its members a value shopper's dream: The lowest prices on the Web. Always. The company estimates an average member will save $150 a year.

The Recode article is an excellent overview of how the Jet.com business model will work; this is the key part:

> Lore says that when a retailer sells on Jet, they give Jet a cut of each sale. The size of the fee varies depending on the product category, but more or less mirrors Amazon's fee schedule (which typically ranges from eight percent to 15 percent). Jet then essentially takes that commission and uses it to fund the initial discount its customers will see on all products. Jet plans to make its profit solely from membership fees, not the products it sells.

I see this as (yet another) significant threat against Amazon. Back in 2013 I wrote that Amazon had a dominant strategy – the company had both the lowest prices *and* the greatest selection, and with Prime, they were working to reduce the convenience/speed advantage of brick-and-mortar retailers. What is happening in e-commerce, though, is that Amazon is being attacked on each vector by different competitors:

- Speciality retailers and brands are not only hesitant about selling with Amazon, they are also better positioned to take advantage of new channels like apps (with Apple Pay smoothing out the payment process on iOS), messaging services, even Facebook and Twitter. The more success they have apart from Amazon, the less dominant Amazon seems when it comes to having the best selection
- Services like Instacart or PostMates are attacking Amazon on the convenience vector, where Amazon is already at a disadvantage. And, as I've noted previously, even if Amazon opens up local distribution centers like the one in Manhattan, they

will be behind when it comes to selection: PostMates and Instapaper can go to any store in the area
- And now Jet is competing on price, and doing so asymmetrically: they are making money in a different place than Amazon – membership fees – so the company can ruthlessly attack Amazon's margin

As has been abundantly clear for a while now, Amazon sees Prime as being essential: people with Prime simply buy a lot more stuff. This, though, shows how Prime could be a good moat as well; I don't think many people will want to pay for both Prime and Jet.com.

That said, it's very easy to see Jet.com putting a crimp in Prime's growth; at least in my opinion Prime is the most compelling when it comes to day-to-day items, but it's those type of day-to-day items (like, say, diapers) that will probably be the most well-represented on Jet. More importantly, Prime is ultimately selling convenience; Jet is selling low prices, and if there is one thing anyone should know from the entire history of business it's that a *lot* of customers care about price above all else – even more than convenience.

From a BusinessWeek profile of Lore:

> It was there in Northern California, amid the rolling vineyards, that Lore had what he considers his e-commerce epiphany. Big players like Amazon, Walmart.com, and Google are all scrambling to offer the fastest possible service, catering to today's typical wealthier-than-average online shoppers who care more about convenience than value. Although shipping can appear to be free, it's often baked in as higher prices. "There's this huge middle class of people that are going to be spending more and more dollars online, and for them it's going to be all about price," Lore says.

The savings go beyond giving customers the retail margin; Jet will charge lower prices for bulk orders, lower prices if the item is shipped from a location closer to your house, lower prices if you use a debit card. Honestly, it all feels like a pain, but then again I fall squarely within the convenience demographic; we can see in all kinds of markets that people will put up with a lot for a lower price. Most importantly, Jet is singularly focused on winning on that specific attribute, while Amazon is trying to win on everything.

The other big thing in Jet's favor is that Amazon will have a hard time fighting back. From BusinessWeek:

> There's also the possibility that Lore's powerful competitors will see Jet's price cuts and respond by going even lower. Amazon did that before and drove Diapers.com into the red. Lore is betting in part that, this time, Amazon simply has its hands full. Bezos's company is spending billions to expand in India and China while continuing expensive forays into cloud computing and hardware such as its Kindle Fire phones. Bezos could cut prices, but that would exacerbate Amazon's losses at a time when investors are already showing impatience: Amazon stock fell 21 percent in 2014.

It's another example of the cost of losing focus.

A Teenager's View on Social Media Follow-Up

A bunch of folks sent me Danah Boyd's critique of A Teenager's View on Social Media, and certainly Boyd's view is worth paying attention to: she has literally written the book on the subject.

> I don't for a second fault Andrew for not having a perspective beyond his peer group. But I do fault both the tech elite and journalists for not thinking critically through what he posted and presuming that a single person's experience can

> speak on behalf of an entire generation. There's a reason why researchers and organizations like Pew Research are doing the work that they do — they do so to make sure that we don't forget about the populations that aren't already in our networks. The fact that professionals prefer anecdotes from people like us over concerted efforts to understand a demographic as a whole is shameful. More importantly, it's downright dangerous. It shapes what the tech industry builds and invests in, what gets promoted by journalists, and what gets legitimized by institutions of power. This is precisely why and how the tech industry is complicit in the increasing structural inequality that is plaguing our society.

It's a fair point. That said, Watts was quite clear he was speaking about his experiences only, and I for one read it in that way. And as for my commentary, I'm interested in understanding the structure of social broadly, something that ideally should apply regardless of what content passes over what service.

Boyd in particular focuses on "black Twitter":

> The world of Twitter is many things and what journalists and tech elites see from Twitter is not even remotely similar to what many of the teens that I study see, especially black and brown urban youth. For starters, their Twitter feed doesn't have links; this is often shocking to journalists and digerati whose entire stream is filled with URLs.

I would argue that this doesn't necessarily change Twitter's categorization, though. It's a public 1-to-many service, whether the content be links or commentary. Regardless, Boyd's piece is an excellent reminder that we are all fundamentally shaped by our own experiences, background, and point of view, and that we should use caution in taking decisions that don't properly appreciate our blindspots.

(Like, dare I say, how difficult it may be for the sorts of people who read Stratechery to imagine a world where a PC is an accessory!)

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