

### Lifestage Programs: Amazon Student and Amazon Mom

In 2010 and 2011, Amazon will reach beyond traditional product and category-focused marketing to attract customers at key lifestages. Moms and Students are the first two customer segments we are targeting. The Amazon.com value proposition (low prices, broad selection, convenient shipping) will resonate with both Moms and Students, but we chose to create “membership programs” that position Amazon as the leader in offering these segments value and convenience. These programs will help us break through the clutter, with compelling benefits that speak specifically to these customers’ lifestage needs. While membership will elevate shopping benefits, savings and delivery experiences for Moms and Students, the programs will be additive to (and not a substitute for) our overall focus on price, selection and convenience.

#### Lifestage Program Tenets (unless you know better ones)

- Our Lifestage Programs will deliver tailored and addictive solutions to customers’ shopping needs at pivotal points in their lives.
- Our programs must deliver a cohesive set of benefits that outweigh the sum total of the customer experiences provided by our credible competitors.
- We will focus on the long-term value of our Lifestage Program members, and will over-invest in developing member loyalty at this lifestage, with the expectation that their loyalty will have accretive benefits over time.
- We will always compare the behavior and value of our Lifestage Program members vs. their non-member peers, and continually measure that we are achieving aggressive goals around acquisition, spend and long-term retention of these customers.
- Textbooks and Baby/Baby Care stores are gateways to our relationships with Students and Moms, but the programs must drive exploration and engagement across multiple categories.
- We will develop skill and sophistication in marketing to our Lifestage Customer Segments, finding the media and messages that resonate with these groups; we will become experts in using data, technology, and appropriate channels to connect to their needs.
- We will speak to Moms and Students in a voice that is authentic to Amazon, but also distinctively geared towards their lifestage. We will change the look and feel of our program to be fresh, relevant and personalized to the needs of the lifestage.
- Customers are providing us with data that they have never shared with Amazon before; we must make good use of that data by providing a highly tailored shopping experience, while still respecting privacy.

#### Why Moms and Students?

Moms are one of the most important customer segments for Amazon: they control the vast majority of household purchases, shop online regularly, and will see their income and expenditures grow throughout their life. Women control or influence 85% of all consumer purchases in the US, and that number grows even higher when looking only at consumable household expenditures, such as food at 93%. When women become mothers, 85% report that having a baby “changed their purchasing habits”<sup>i</sup>, and the average cost of a baby’s first year is more than \$10k<sup>ii</sup>. According to Proctor and Gamble, women report using 5-7 retailers regularly before becoming a Mom and narrow down to 2-3 after becoming a mom<sup>iii</sup>. By attracting new Moms to Amazon and exposing them to a convenient and addictive shopping experience, we have the opportunity to immediately increase incremental revenue and drive repeat visits to the site—but most importantly, we can solidify Amazon as a choice for a lifelong shopping destination.

The Amazon Mom program will focus on serving the needs of Moms in the ‘prenatal’ through ‘toddler’ (17M Moms) stage. These early years are a pivotal point when Mom’s free time decreases dramatically and yet she faces enormous new purchasing challenges. By introducing Mom to the convenience of Amazon, and offering meaningful benefits relevant to her needs, our goal is to grow a loyal, high-spend membership base to more than ■■■ Moms, reaching ■■■ of the target population by 2015.

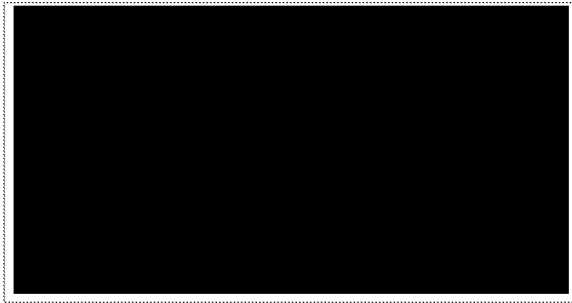
For a very different reason, Students are as attractive as Moms. Although students are a longer-term bet in terms of return on investment, they are a key customer group while they are in school (when they purchase \$900-\$1300/yr on textbooks

**Comment [j1]:** I still think this is confusing. It’s not clear if you should add the two numbers for the total or if there is a third point needed for the total. I think you should add a “for a total of XX moms” kind of statement.

and supplies<sup>v)</sup>, and post-graduation their spending power increases versus their peers. According to The College Board (administrators of the SAT), four-year college graduates earn 61% or \$800,000 more than high school graduates over their working lives.<sup>v</sup> Capturing the loyalty of this segment now will pay dividends as these customers' spending power grows.

Amazon also under-indexes in this segment. While 18-24 year olds make up 14% of the internet buying population, they currently represent only █ of Amazon's customer base.<sup>vi</sup> Even so, they represent one of our largest pools of new customers. During Textbook season months, █ of Amazon's *site-wide* new customers make their first purchase in textbooks (█ customers annually).

New Textbook Customers as a % of all Amazon New Customers



The Amazon Student Program will initially target customers preparing for or enrolled at a degree or certificate-granting organization, or preparing to take a standardized test. This includes students at public, private or for-profit schools, two or four-year programs, and those taking standardized tests or professional certification exams. There are approximately 19.3 million students across more than 4,300 U.S. colleges; 51% are enrolled at four-year and 47% at two-year schools, and the remaining 2% at specialty schools in a specific field.<sup>vii</sup> Over the past year, we had █ core textbook customers. Our goal is to grow Amazon Student from █ members in 2010 to █ in 2015, which is nearly a quarter of the estimated student market segment.

Developing a long-lasting, sticky relationship with these customer groups will drive significant downstream value across Amazon categories. Comparing Amazon's current "Mom" customers (defined as new customers who began their shopping with Amazon in the Diapers category), with "Average" customers (defined as new customers who began their shopping with Amazon in any category), we can see that Moms have a favorable year one downstream value relative to the average customer. Students have a comparable value to the "Average" customer but their purchases are heavily weighted in the books category, offering a significant cross shopping opportunity.

**Comment [RW2]:** This is good, but redundant with a few paragraphs above. Would likely cut the earlier statement ( i.e., █ of their first year spend."

Year 1 Downstream Value by Category

Source Q1 2009

|                                 | Existing Amazon Customers |  | New to Amazon     |                    |                   |
|---------------------------------|---------------------------|--|-------------------|--------------------|-------------------|
|                                 | New-to-Diapers            | New-to-GL Amazon Customers (excluding HPC) | Diapers Customers | Textbook Customers | Average Customers |
| Total Downstream 1-yr CP        |                           |  |                   |                    |                   |
| Total Downstream 1-yr GMS       |                           |  |                   |                    |                   |
| Customer Count Used in Analysis |                           |  |                   |                    |                   |
| <u>DSV by GL</u>                |                           |  |                   |                    |                   |
| Books                           |                           |  |                   |                    |                   |
| Electronics                     |                           |  |                   |                    |                   |
| Video DVD                       |                           |  |                   |                    |                   |
| Kitchen                         |                           |  |                   |                    |                   |
| Music                           |                           |  |                   |                    |                   |
| Sports                          |                           |  |                   |                    |                   |
| Video Games                     |                           |  |                   |                    |                   |
| Toys                            |                           |  |                   |                    |                   |
| Home Improvement                |                           |  |                   |                    |                   |
| Health & Personal Care          |                           |  |                   |                    |                   |
| Apparel                         |                           |  |                   |                    |                   |
| Personal Care Appliances        |                           |  |                   |                    |                   |
| Software                        |                           |  |                   |                    |                   |
| Shoes                           |                           |  |                   |                    |                   |
| Baby                            |                           |  |                   |                    |                   |
| All Others                      |                           |  |                   |                    |                   |

Program Plans for 2010 and Results to Date

We launched Amazon Student on July 12th and saw heavy adoption and a very positive response. As of August 28th, membership was [REDACTED]. Of those members, [REDACTED] had never tried Prime, and [REDACTED] switched from a paid Prime plan. [REDACTED] of customers were new to Amazon, and this rate has consistently increased week over week since the program started. Of previous Amazon customers, [REDACTED] of members had made a textbook purchase, and the median spend for those members across all products for the past year was [REDACTED]. Since launch, [REDACTED] of Prime-eligible textbook ordered units have been purchased by members. Across all Student members, the median spend over the past year was [REDACTED] compared to [REDACTED] for the average Amazon customer. We also launched a Facebook page, which 6,688 people have "liked" as of August 30th. For launch to date metrics, see Appendix A.

The Amazon Student launch included a sign-up process requiring a .edu email address and capturing major, year, and school; a targeted merchandised landing page; and integration with Prime and exclusive promotions. Once confirmed, students are directed to the program landing page (www.amazon.com/student), which integrates with RCX's core back to school page and describes program benefits, deals and navigation to relevant categories. Currently, all student members receive a year of Amazon Prime's shipping benefits, and we plan to offer a renewal to members that exceed a purchase threshold (still TBD). Since launch, we have offered several exclusive promotions, including \$50 off of laptops + 10% off Computer Accessories, 20% off Apparel and 20% off Endless shoes and accessories. All promotions we offer our student members (and will offer our Mom members after launch) are exclusive, high-value, timely and relevant.

Amazon Mom will launch on September 7<sup>th</sup>. Mom's custom sign-up form will (optionally) collect the gender, birthdates, and names of children for future use in site and campaign personalization. Upon registration, members will receive a ~~three-~~ month free preview of Prime, and can earn additional free months for every \$25 spent in a Baby order (up to a year total of

**Comment [EP3]:** Martha Phelps wanted to know if this is shipping benefits only or "regular" Prime, which will include AVOD, etc. shortly.

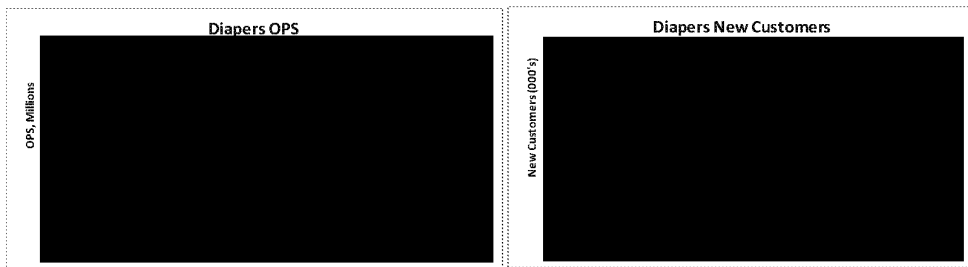
free Prime shipping). We will double the Subscribe and Save (S&S) discount on Diapers and Wipes to [REDACTED] (off our already low prices), and offer a [REDACTED] one-time discount for customers new to Baby.

Some of the benefits included in the Mom program – the S&S [REDACTED] off discount and the three-month free preview of Prime – have already been road-tested with new Diapers customers. Although we are very early in our findings, initial test results are encouraging. We began piloting the [REDACTED] “Double your S&S savings” on diapers and wipes on June 28 and have seen Babycare sales jump from [REDACTED] YOY growth to [REDACTED] YOY growth. If we maintain the current rate of sales, we will become one of P&G’s Top 10 US Baby Care retailers in their current fiscal year. In line with sales, Diaper new customer growth also jumped from [REDACTED] per month to [REDACTED] per month. Some of the new customer growth is coming from our early marketing efforts in print. It’s still early, but our August ads in parenting magazines generated a very promising [REDACTED] new diapers customers since launch, at a very low [REDACTED] per new customer acquisition cost.

**Comment [RW4]:** over what period?

**Comment [RW5]:** @SL - How much lift is being driven by new customers vs existing customers? May be selling the promotional aspects short...

Diapers Sales and New Diapers Customer Growth



How Will We Approach Marketing?

In marketing to customers in these lifecycle segments, we will bias toward ‘fishing where the fish are’, including developing expertise in new media channels. We will research where and how these customers consume media and make purchase decisions, understand where and how our credible competitors invest, and aggressively test in those channels which support targeting these customers at scale. For Moms, we will initially focus on print, direct mail and display and social media advertising. For students, we will initially focus on display, social media, mobile and on-campus advertising. In addition, we will support both programs through our more established online marketing channels – Sponsored Links, Free Search and Associates – albeit with modifications to our standard practices where they are not aligned with the goals and success metrics of these programs (i.e., not optimized for new customer acquisition or downstream value).

In addition, we will test a variety of messages and offers in our marketing and advertising, seeking to understand the optimal mix of offers which are product-related (like diapers discounts) and those which “sell” what is ultimately a free membership. While it is attractive to advertise our free membership offers exclusively, our early results suggest that we can be effective and efficient with promotions based on our gateway products and stores. After all, new customers coming in on a product discount coupon will have the opportunity to join the membership program at checkout or through other onsite promotional activities.

**Comment [RW6]:** Place diapers print results and examples in the appdx?

Membership Goals and Anticipated Investment

In 2010 our incremental investment in Amazon Student will be [REDACTED], including the cost of free Prime shipping benefits ([REDACTED]), promotions [REDACTED], and on-campus and online advertising (including Associates, Display and Facebook, and Sponsored Links; [REDACTED]). In 2011 we’ll expand that investment to [REDACTED] to scale successful past approaches to a full-year plan and test new approaches. In line with this cost, the opportunity of achieving success with Students is high—if we meet our key growth and performance metrics, we can achieve [REDACTED] in annual revenue (and [REDACTED] in FCF) by 2015.

Student Membership Goals

|   | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|------|------|------|------|------|------|
| <b>Amazon Student</b>                             |      |      |      |      |      |      |
| Total addressable Student population (millions)   |      |      |      |      |      |      |
| Amazon Student membership goal                    |      |      |      |      |      |      |
| Penetration                                       |      |      |      |      |      |      |
| Expected OPS per existing member                  |      |      |      |      |      |      |
| Expected OPS per new member                       |      |      |      |      |      |      |
| Amazon Student total revenue potential (millions) |      |      |      |      |      |      |
| Amazon Student Program free cash flow (millions)  |      |      |      |      |      |      |

**Comment [j7]:** Don't even say market penetration in this table. Please change it to just say penetration.

Also, I wouldn't go out past 2015.

Assumptions

18.6M U.S. students in 2008 per US Census, prior 5-year trend of 1.75% annual growth continues. Membership goals for 2010-2011 based on launch-to-date performance. [redacted] of 2011 members are new customers (trending to [redacted] by 2012), [redacted] are existing customers (trending to [redacted] by 2012). Student assumed to be [redacted] of overall Textbook + Student + Buyback marketing, [redacted] annual growth in budget. Prime lift of [redacted] increasing to [redacted] post graduation. [redacted] of members will be offered free renewal, [redacted] of Student members will convert to paid Prime. Free cash flow estimate includes a per unit estimate for fixed costs, capex and working capital.

The free cash flow estimates for this program are highly dependent on three factors: acquiring a high proportion of new-to-Amazon customers, conversion of customers to paid Prime and the spend level of customers after they leave the Amazon Student program. Appendix H contains a free cash flow estimate which projects the total investment for the initial 2 years of this program to be within [redacted]. Given this large and uncertain investment, Amazon Student will continue to focus our efforts around three key objectives:

1. **New Customer Acquisition:** Reach a total enrollment of [redacted] Amazon Student members by the end of 2011, [redacted] of which are new to Amazon. We will exploit traditional traffic generation tools (sponsored links, display ads, associates, site presence), and will scale early areas of success in new channels.
2. **Retention and Conversion to Paid Prime:** Achieve [redacted] retention of Students as Amazon customers and [redacted] conversion to paid Prime memberships. The cross-category promotions and initial year of free Prime offer a vehicle to promote engagement with the customer segment. If members suspend shopping, we can reach out with reasons to come back. We will monitor engagement with the program and develop compelling reasons for repeat shopping.
3. **Cross-Shopping:** Capturing additional textbook purchases through the convenience of free two-day shipping and exposing students to the breadth of Amazon's offerings through emails, promotions and site personalization that will increase their spending outside of books and relative to peers over the long term.

The 2010 Amazon Mom investment will be [redacted] in 2010, concentrated predominantly in key program benefits such as Prime [redacted] and [redacted] off of Diapers [redacted], as well as marketing and advertising for the program [redacted]. In 2011 we'll expand the total investment to [redacted]. The largest costs— Prime, SnS promotion, and marketing— can be altered as we evaluate the program's success. If we meet our key growth and performance metrics, the opportunity of Mom is [redacted] in revenue (and [redacted] in incremental FCF) by 2015.

**Mom Membership Goals**

|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------|------|------|------|------|------|
| <b>Amazon Mom</b>                                    |      |      |      |      |      |      |
| Total US Moms, prenatal through diapers (millions)   |      |      |      |      |      |      |
| Amazon Mom Members (millions)                        |      |      |      |      |      |      |
| Customer Segment Penetration (percent)               |      |      |      |      |      |      |
| Total GMS per Amazon Mom Member                      |      |      |      |      |      |      |
| Total GMS of Amazon Mom Members (millions)           |      |      |      |      |      |      |
| Incremental GMS due to Amazon Mom Program (millions) |      |      |      |      |      |      |
| Incremental FCF of Amazon Mom Members (millions)     | \$   |      |      |      |      |      |

Assumptions

Amazon Mom: 17.2M U.S. Moms in the prenatal through diapers stage. Population growth of 0.8% each year. GMS/Incremental GMS per member is a blended estimate of New and Existing customers. More detail in appendix G.

\*2010 includes Sep - Dec

Mom will continue to focus our efforts around three key objectives:

1. **Acquisition:** Enroll [redacted] Mom members by the end of 2011, [redacted] 'new-to-Amazon' customers.
2. **Cross-Shopping:** Achieve 1-year Downstream GMS of [redacted]. By upgrading and personalizing member's site experience (through search, personalized merchandizing widgets, S9 campaigns, EPC emails, etc), we will help connect these segments with products they need—when they need them—leading to increased annual spend relative to their peers.
3. **Retention:** Achieve [redacted] active retention of Amazon Moms. Amazon Mom offers a vehicle to promote engagement with an important customer segment. If Amazon Mom members suspend shopping, we can reach out with reasons to come back. [redacted] of current diapers customers (anyone who has ever bought diapers on Amazon dating back to the launch of HPC) have made a purchase in the last 3 mos. As we greatly increase our Mom customer base, we will work to preserve this high rate of retention by presenting compelling reasons for repeat shopping.

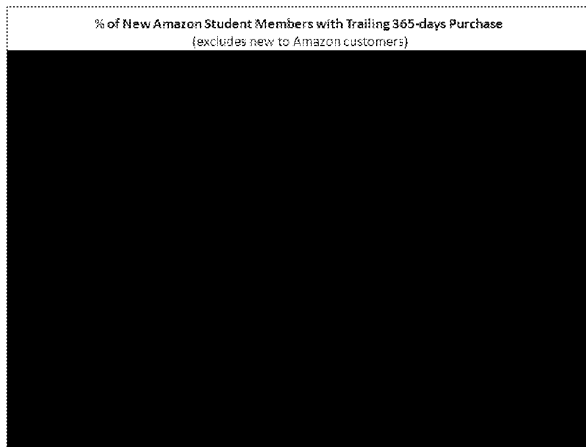
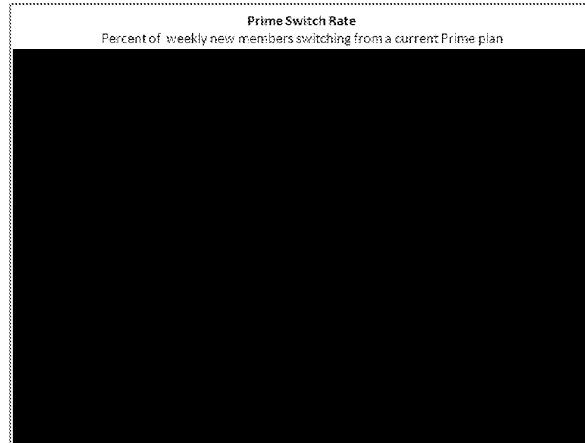
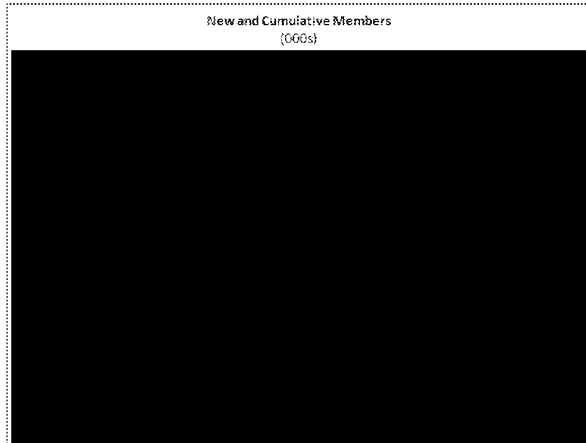
Additionally, in 2011 we will formalize the way we package and sell co-operative marketing to vendors interested in connecting with both Moms and Students. Partnering with Adzinia and other categories, our focus will be pass-through discounts, free trials, and engaging marketing. Our goal will be to collect co-op dollars while balancing an exclusive and relevant feeling among members.

**How Are We Organized?**

Considering the importance of these customers, their unique needs, and the scope of the programs and investment, each program will require dedicated resources across both category and Traffic teams to succeed. While we work to build the teams, we will launch Amazon Mom and Amazon Student with program leadership from within the Baby and Books categories. These dedicated Program Managers will 1) collect and consolidate information on the customer segment, 2) define the benefits and customer experience of the membership programs, 3) work cross-functionally with technical teams to develop a seamless user experience, 4) work with categories outside of Baby/Books to develop substantive benefits to members of the programs, 5) develop vendor funding and coop programs, and 5) track and report on success metrics.

Ultimately, the Program Managers will partner with a new team that will be formed within the Traffic organization, whose role will be to attract these segments through multi-channel marketing initiatives and program development. This team, for which we are actively recruiting, will include dedicated Segment Managers for each Lifestage program, as well as an engineering group for overall program support. Moving forward, the Traffic Lifestage team will be responsible for 1) developing and executing against a comprehensive marketing, measurement and testing plan; 2) executing media plans; 3) partnering with category teams to develop targeted messaging, 4) developing and/or commissioning creative assets, 5) designing and maintaining the technical components of the program (sign-up process, data architecture and storage, etc.), and 6) establishing the data sources, requirements and practices necessary to identify and target segment customers and prospects across internal and external systems and channels (e.g., personalization, search, content symphony, S9, email). Until the new team is in place, we are covering the marketing and engineering needs of the program with existing resources in Traffic, Prime and Retail.

Appendix A: Amazon Student Weekly Metrics



Appendix B: Amazon Student Membership Data as of 8/28

|                |  |  |
|----------------|--|--|
| Level          |  | Graduate Student                           |
|                |  | Senior                                     |
|                |  | Junior                                     |
|                |  | Sophomore                                  |
|                |  | Freshman                                   |
|                |  | Other                                      |
| Top 10 Majors  |  |  |
| 1              |  | Business and Finance                       |
| 2              |  | Engineering                                |
| 3              |  | Medicine and Health Sciences               |
| 4              |  | Computer Science and Technology            |
| 5              |  | Other                                      |
| 6              |  | Biological Sciences                        |
| 7              |  | Education                                  |
| 8              |  | Psychology                                 |
| 9              |  | Law  |
| 10             |  | Nursing                                    |
| Top 10 Schools |  |  |
| 1              |  | University of California-Berkeley          |
| 2              |  | University of Southern California          |
| 3              |  | University of California-Los Angeles       |
| 4              |  | The University of Texas at Austin          |
| 5              |  | University of Florida                      |
| 6              |  | University of Michigan-Ann Arbor           |
| 7              |  | New York University                        |
| 8              |  | Harvard University                         |
| 9              |  | University of California-San Diego         |
| 10             |  | University of Illinois at Urbana-Champaign |
| Top 10 States  |  |  |
| 1              |  | CALIFORNIA                                 |
| 2              |  | NEW YORK                                   |
| 3              |  | TEXAS                                      |
| 4              |  | FLORIDA                                    |
| 5              |  | PENNSYLVANIA                               |
| 6              |  | ILLINOIS                                   |
| 7              |  | MASSACHUSETTS                              |
| 8              |  | MICHIGAN                                   |
| 9              |  | VIRGINIA                                   |
| 10             |  | GEORGIA                                    |

Comment [j8]: Don't have Other be a school



Appendix C: Amazon Student Member Purchases by Category as of 8/28

|                          | AmazonStudents<br>% total | Active Amazon Customers<br>% total |
|--------------------------|---------------------------|------------------------------------|
| Media                    |                           |                                    |
| Hardlines                |                           |                                    |
| Digital                  |                           |                                    |
| Consumables              |                           |                                    |
| Softlines                |                           |                                    |
| Description              |                           |                                    |
| Books                    |                           |                                    |
| Digital_Ebook_Purchase   |                           |                                    |
| Electronics              |                           |                                    |
| Digital_Music_Purchase   |                           |                                    |
| Kitchen                  |                           |                                    |
| Video DVD                |                           |                                    |
| Health & Personal Care   |                           |                                    |
| Video Games              |                           |                                    |
| Sports                   |                           |                                    |
| Wireless                 |                           |                                    |
| Digital_Video_Download   |                           |                                    |
| Music                    |                           |                                    |
| Toys                     |                           |                                    |
| Beauty                   |                           |                                    |
| Apparel                  |                           |                                    |
| Home Improvement         |                           |                                    |
| Grocery                  |                           |                                    |
| Personal_Care_Appliances |                           |                                    |
| Office Products          |                           |                                    |
| Pet Products             |                           |                                    |
| Shoes                    |                           |                                    |
| Automotive               |                           |                                    |
| Baby                     |                           |                                    |
| All other categories     |                           |                                    |

**Comment [j9]:** Why does the student purchases look the same as the average customers but they don't in the DSV calculation?  
  
Why is the books % in the [redacted] days so much lower than the [redacted] days? Seems odd given textbook season

Appendix D: Detail of 2010 Program Plans

| Feature   | Amazon Student   | Amazon Mom   |
|---|--|--|
| Sign-up Process                                   | <p>[Launched 7/12/2010]</p> <ul style="list-style-type: none"> <li>www.amazon.com/student/join</li> <li>Requires .edu email address verification</li> <li>Collects school, major and year</li> <li>Basic fraud checks</li> <li>Replaces basic sign-up launched Nov. '09</li> </ul>         | <p>[Launch 9/7/2010]</p> <ul style="list-style-type: none"> <li>www.amazon.com/mom/join</li> <li>Collects gender and birthdates of children for age/stage personalization</li> <li>Basic fraud checks</li> </ul>                               |
| Program Landing Page                              | <p>[Launched 7/12/2010]</p> <ul style="list-style-type: none"> <li>www.amazon.com/student</li> <li>Combined with RCX back-to-college page</li> <li>Student-relevant deals and categories</li> </ul>  | <p>[Launch 9/7/2010]</p> <ul style="list-style-type: none"> <li>www.amazon.com/mom</li> <li>Program benefits, Mom-relevant deals and categories</li> </ul>   |
| Free Prime  | <p>[Launched 7/12/2010]</p> <ul style="list-style-type: none"> <li>Free Prime shipping benefits for one year</li> <li>No auto-upgrade to a paid membership as with free trials</li> <li>Renewal and extension requirements TBD Q4 2010 (purchase threshold; reduced annual fee)</li> </ul> | <p>[Launch 9/7/2010]</p> <ul style="list-style-type: none"> <li>Free 3-month trial upon registration</li> <li>Earn additional months of free Prime by spending in Baby/Baby Care</li> <li>Detail page messaging of item eligibility</li> </ul> |
| Email Offers                                      | <p>[Launched 11/2009]</p> <ul style="list-style-type: none"> <li>Exclusive, high-value, timely and relevant cross-category email offers</li> <li>Increased frequency (currently monthly – goal is weekly)</li> </ul>   | <p>[Launch 9/7/2010]</p> <ul style="list-style-type: none"> <li>Exclusive, high-value, timely and relevant cross-category email offers</li> <li>Monthly emails</li> </ul>  |
| Onsite Offers                                     | <p>[Launched 7/12/2010]</p> <ul style="list-style-type: none"> <li>Exclusive, high-value, timely and relevant cross-category on-site offers</li> <li>Vendor-funded coupons and category offers targeted to students</li> </ul>   | <p>[Launch 9/7/2010]</p> <ul style="list-style-type: none"> <li>Exclusive, high-value, timely and relevant cross-category on-site offers</li> <li>Vendor-funded coupons and category offers targeted to Moms</li> </ul>                        |
| 30% off (already low prices) on Diapers and Wipes | n/a  | <p>[Launch 9/7/2010]</p> <ul style="list-style-type: none"> <li>Double the Subscribe &amp; Save discount on Diapers and Wipes</li> <li>Maintain flexibility in messaging so the discount can be easily changed</li> </ul>                      |
| New Customer Bounty                               | n/a  | <p>[Launch 9/7/2010]</p> <ul style="list-style-type: none"> <li>10% one-time discount for customers new to the Baby store</li> <li>Discount applies to Baby/care items</li> </ul>  |

**Comment [j10]:** I don't mind the table. I see the note below about making it a narrative. Where did that come from?

EP: that was old (from when this table was in the body of the doc – sorry.

**Comment [EP11]:** Same question from Martha - shipping benefits only?

**Lifestage Marketing**  
**Date: August 31, 2010**

|  |  |   |
|--|--|---|
| Refer a Friend Bonuses                           | <p>[Launching winter 2010-2011]</p> <ul style="list-style-type: none"> <li>In the near term, we will focus our social marketing on sharing info about the program with friends. In winter we will launch a formal referral program.</li> </ul>   | <p>[Launching winter 2010-2011]</p> <ul style="list-style-type: none"> <li>We will follow the Student launch of this feature.</li> </ul>                            |
| Advance notice on deals to Facebook page members | <p>[Launching Q3 2010]</p> <ul style="list-style-type: none"> <li>Give Amazon Student Facebook page followers advance notice of deals to encourage membership in Amazon Student as well as drive followers of the Facebook page, which allows us to communicate with them going forward in a highly relevant channel.</li> </ul> | <p>[Launching winter 2010-2011]</p> <ul style="list-style-type: none"> <li>Creation of Amazon Mom Facebook page</li> <li>Mechanism to pre-announce deals</li> </ul> |

**Appendix E: Summary of DSV methodology**

While our current financial systems act as if each customer purchase is an isolated and one-time event, we know intuitively that all sales are not created equally. Generating a sale to a customer in a high repeat purchase category (e.g. diapers) is more likely to lead to incremental sales over the ensuing year than a “one-and-done” sale such as buying the last book of series. The objective of the Downstream Value project is to determine the incremental long-term customer value generated by specific product purchases.

Downstream value replaces “Lifetime Value” as the term we use to describe predictable future spending. We have shifted to Downstream Value in recognition of two facts. First, we are not always ascribing to future value to specific individuals, so the word “Lifetime” doesn’t work. Second and more importantly, the word “Lifetime” suggests we’ll always project the entire lifetime relationship between a customer and Amazon, while “Downstream” allows for multiple time windows, such as “1 year DSV” or “3 year DSV.” The purchases-of-interest we analyzed in this case are: 1) the first purchase in the Diapers subcategory (a proxy for “new Moms”) and 2) a core Textbook purchase (a proxy for “student”).

Our DSV approach compares average future revenue and profit streams of customers who purchase from a product-of-interest (treatment) to a similar set of customers who purchased on the same-day but not from the product-of-interest (control). Since the diapers customers are buying for the first time from Baby Care/HPC, we collected a sample of [REDACTED] customers who purchased for the first time on the same day but from a non-HPC product group. For core-Textbook customers, our sample was 11.6mm customers who bought the same day (but not a textbook).

In order to control for potential population biases, we segment both the treatment and control samples into [REDACTED] segments<sup>1</sup>. The RFM segments were created by scanning customers trailing twelve months (TTM) of activity prior to their first purchase and grouping them into three separate quintiles based on: days since last order, number of orders, and total OPS (R-F-M, respectively). The quintile ranges for each of the RFM metrics used for the Diapers customers are provided in the table below:

RFM metrics quintile ranges for Diapers

| R | Customer Count | MIN days since last order in TTM | MAX days since last order in TTM |
|---|----------------|----------------------------------|----------------------------------|
| 1 | [REDACTED]     | [REDACTED]                       | [REDACTED]                       |
| 2 | [REDACTED]     | [REDACTED]                       | [REDACTED]                       |
| 3 | [REDACTED]     | [REDACTED]                       | [REDACTED]                       |
| 4 | [REDACTED]     | [REDACTED]                       | [REDACTED]                       |
| 5 | [REDACTED]     | [REDACTED]                       | [REDACTED]                       |

| R | Customer Count | MIN Orders in TTM | MAX Orders in TTM |
|---|----------------|-------------------|-------------------|
| 1 | [REDACTED]     | [REDACTED]        | [REDACTED]        |
| 2 | [REDACTED]     | [REDACTED]        | [REDACTED]        |
| 3 | [REDACTED]     | [REDACTED]        | [REDACTED]        |
| 4 | [REDACTED]     | [REDACTED]        | [REDACTED]        |
| 5 | [REDACTED]     | [REDACTED]        | [REDACTED]        |

| R | Customer Count | MIN OPS in TTM | MAX OPS in TTM |
|---|----------------|----------------|----------------|
| 1 | [REDACTED]     | [REDACTED]     | [REDACTED]     |
| 2 | [REDACTED]     | [REDACTED]     | [REDACTED]     |
| 3 | [REDACTED]     | [REDACTED]     | [REDACTED]     |
| 4 | [REDACTED]     | [REDACTED]     | [REDACTED]     |
| 5 | [REDACTED]     | [REDACTED]     | [REDACTED]     |

Our approach compares treatment-versus-control on a *segment-by-segment* basis so that similar populations are compared. For example, highly active customers [REDACTED] from the treatment group are compared to highly active [REDACTED] overall customers. The ensuing 1-year of revenue is collected for both customer groups and the within-RFM segment averages (medians) are calculated and differenced. The segment-level incremental downstream GMS is then aggregated across RFM segments by taking a *weighted average* of the segment level incremental impacts based on the expected distribution of RFM segments across the target population. Since we do not know the expected RFM distribution of future customers we may acquire through marketing and loyalty programs, we use a proxy based on the distribution of RFM segments within the existing treatment groups. Finally, to incorporate the bottom-line impact of a customer’s revenue, we use category level margin to predict contribution profit per customer.

<sup>1</sup> RFM stands for Recency, Frequency, and Monetary Value

Appendix F: 2010 and 2011 Lifestage Program Incremental Investment

**Amazon Student**

|                             | 2010<br><i>actual &amp; estimate</i> | 2011<br><i>estimate</i> |
|-----------------------------|--------------------------------------|-------------------------|
| Projected membership        |                                      |                         |
| 1-yr Prime membership       |                                      |                         |
| On-campus marketing         |                                      |                         |
| Online marketing            |                                      |                         |
| Exclusive member promotions |                                      |                         |
| <b>Total Program Cost</b>   |                                      |                         |

**Assumptions:**

Membership projections are based on launch-to-date metrics, textbook seasonality, and historical textbook new customer acquisition. Prime membership CP cost is based on FCF model (see Appendix E). 2011 Prime cost assumes continuation of the current offer; restrictions such as a textbook purchase threshold may be added which would reduce cost. Marketing spend is actual for 2010 through Q3, projected based on 2010 for 2011 and is for Student only. Total 2011 marketing plan included in OP1 for Student + Textbooks + Buyback is \$11.2M (total 2010 spend is [REDACTED]). Promotions are budgeted amount from Q3 2010 forward and the cost is only for the Books-funded events (other promotions are category or vendor-funded, reducing the total cost). 2011 spending level is dependent on Fall 2010 campaign effectiveness.

**Amazon Mom**

|  | 2010<br><i>estimate</i> | 2011<br><i>estimate</i> |
|--|-------------------------|-------------------------|
| Projected membership                         |                         |                         |
| Prime membership                             |                         |                         |
| 30% off SnS Diapers                          |                         |                         |
| Marketing (Print, Display, Direct Mail, etc) |                         |                         |
| New to Baby Store Customer Bounty            |                         |                         |
| <b>Total Program Cost</b>                    |                         |                         |

**Amazon Mom**

Membership projections are based on sign-up rates for past textbook free trials, current Diapers promotion, and estimates from early weeks of launch of Amazon Student.  
The "New to Baby Store" bounty is a 10% discount on Baby and Baby Care products for customers that have never shopped in those categories. 2010 numbers include Sep - Dec

**Appendix G: Per-customer Free Cash Flow Assumptions**

Amazon Mom

|  | Year 1 | Year 2 | Year 3 | Year 4 |
|--|--------|--------|--------|--------|
| <b>New to Amazon Customer:</b>                           |        |        |        |        |
| <b>GMS:</b>  |        |        |        |        |
| Total GMS  |        |        |        |        |
| Incremental GMS (100% of New Customers are incremental)  |        |        |        |        |
| <b>Units</b>   |        |        |        |        |
| Total Units  |        |        |        |        |
| Incremental Units  |        |        |        |        |
| <b>Contribution Profit:</b>                              |        |        |        |        |
| Contribution Profit (before Incr Investment)             |        |        |        |        |
| <b>Cost of Amazon Mom Program:</b>                       |        |        |        |        |
| Prime Membership   |        |        |        |        |
| 30% off SnS Diapers Promotion                            |        |        |        |        |
| Marketing (Print, Display, Direct Mail, etc.)            |        |        |        |        |
| New to Baby Store Customer Bounty                        |        |        |        |        |
| Total Incremental Investment                             |        |        |        |        |
| <b>Free Cash Flow:</b>                                   |        |        |        |        |
| FCF  |        |        |        |        |
| <b>Existing Amazon Customer:</b>                         |        |        |        |        |
| <b>GMS:</b>  |        |        |        |        |
| Total GMS  |        |        |        |        |
| Incremental GMS  |        |        |        |        |
| % Incremental  |        |        |        |        |
| <b>Units</b>   |        |        |        |        |
| Total Units  |        |        |        |        |
| Incremental Units  |        |        |        |        |
| <b>Contribution Profit:</b>                              |        |        |        |        |
| Incremental Contribution Profit (before Incr Investment) |        |        |        |        |
| <b>Cost of Amazon Mom Program:</b>                       |        |        |        |        |
| Prime Membership   |        |        |        |        |
| 30% off SnS Diapers Promotion                            |        |        |        |        |
| Marketing (Print, Display, Direct Mail, etc.)            |        |        |        |        |
| New to Baby Store Customer Bounty                        |        |        |        |        |
| Total Incremental Investment                             |        |        |        |        |
| <b>Free Cash Flow:</b>                                   |        |        |        |        |
| Incremental FCF  |        |        |        |        |
| <b>Blended New/Existing Amazon Customer:</b>             |        |        |        |        |
| <b>GMS:</b>  |        |        |        |        |
| Total GMS  |        |        |        |        |
| Incremental GMS  |        |        |        |        |
| <b>Units</b>   |        |        |        |        |
| Total GMS  |        |        |        |        |
| Incremental Units  |        |        |        |        |
| <b>Contribution Profit:</b>                              |        |        |        |        |
| Incremental Contribution Profit (before Incr Investment) |        |        |        |        |
| <b>Cost of Amazon Mom Program:</b>                       |        |        |        |        |
| Prime Membership   |        |        |        |        |
| 30% off SnS Diapers Promotion                            |        |        |        |        |
| Marketing (Print, Display, Direct Mail, etc.)            |        |        |        |        |
| New to Baby Store Customer Bounty                        |        |        |        |        |
| Total Incremental Investment                             |        |        |        |        |
| <b>Free Cash Flow:</b>                                   |        |        |        |        |
| Incremental FCF  |        |        |        |        |

\*All numbers are on a per Customer basis

Amazon Student

Amazon Student Free Cash Flow Assumptions

| Existing Amazon Customers <sup>1</sup> | Before Program <sup>4</sup> | Program Member <sup>5</sup> | After Program<br>w/ Prime <sup>6</sup> | After Program<br>w/o Prime <sup>7</sup> | Notes                      |
|--|-----------------------------|-----------------------------|--|---|----------------------------|
| Units                                  |                             |                             |  |   |                            |
| Lift <sup>8</sup>                      |                             |                             |  |   | Observed Prime lift is 57% |
| CPPU excl ship profit                  |                             |                             |  |   | Provided by Prime Team     |
| Ship profit per unit                   |                             |                             |  |   |                            |
| CPPU                                   |                             |                             |  |   |                            |
| CP before Sub rev                      |                             |                             |  |   |                            |
| Sub Rev                                |                             |                             |  |   |                            |
| CP                                     |                             |                             |  |   |                            |
| Incremental CP (vs. Before Prog.)      |                             |                             |  |   |                            |

| Non-incremental New Amazon Customers <sup>7</sup> | Before Program <sup>4</sup> | Program Member <sup>5</sup> | After Program<br>w/ Prime <sup>6</sup> | After Program<br>w/o Prime <sup>7</sup> | Notes                      |
|---|-----------------------------|-----------------------------|--|---|----------------------------|
| Units   |                             |                             |  |   |                            |
| Lift <sup>8</sup>                                 |                             |                             |  |   | Observed Prime lift is 57% |
| CPPU excl ship profit                             |                             |                             |  |   | Provided by Prime Team     |
| Ship profit per unit                              |                             |                             |  |   |                            |
| CPPU  |                             |                             |  |   |                            |
| CP before Sub rev                                 |                             |                             |  |   |                            |
| Sub Rev   |                             |                             |  |   |                            |
| CP  |                             |                             |  |   |                            |
| Incremental CP (vs. Before Prog.)                 |                             |                             |  |   |                            |

| Incremental New Amazon Customers <sup>1</sup> | Before Program <sup>4</sup> | Program Member <sup>5</sup> | After Program<br>w/ Prime <sup>6</sup> | After Program<br>w/o Prime <sup>7</sup> | Notes                      |
|---|-----------------------------|-----------------------------|--|---|----------------------------|
| Units   |                             |                             |  |   |                            |
| Lift <sup>8</sup>                             |                             |                             |  |   | Observed Prime lift is 57% |
| CPPU excl ship profit                         |                             |                             |  |   | Provided by Prime Team     |
| Ship profit per unit                          |                             |                             |  |   |                            |
| CPPU  |                             |                             |  |   |                            |
| CP before Sub rev                             |                             |                             |  |   |                            |
| Sub Rev                                       |                             |                             |  |   |                            |
| CP  |                             |                             |  |   |                            |
| Incremental CP (vs. Before Prog.)             |                             |                             |  |   |                            |

| Other Assumptions  | Notes |
|--|-------|
| Renewal of free Prime subscription for year 2  |       |
| Conversion of Amazon Student members to paid Prime   |       |
| Renewal rate of paid Prime after year 1 subscription                                       |       |
| Renewal rate of paid Prime after year 2 subscription                                       |       |
| Renewal rate of paid Prime after year 3 subscription                                       |       |
| Percentage of Amazon Student members that remain Amazon Customers after quit Student Prime |       |
| Prime subscription revenue   |       |
| Cost of capital  |       |
| Assumes average member is starting junior year (50% complete with 4 year degree program)   |       |
| FCF factor   |       |
| Marketing expense growth   |       |

**Appendix H: Total Free Cash Flow**

Amazon Mom

| Free Cash Flow Summary (000's) |         |         |         |         |         |         |
|--------------------------------|---------|---------|---------|---------|---------|---------|
|                                | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
| <b>New Members</b>             |         |         |         |         |         |         |
| 2010 Cohort                    |         |         |         |         |         |         |
| 2011 Cohort                    |         |         |         |         |         |         |
| 2012 Cohort                    |         |         |         |         |         |         |
| 2013 Cohort                    |         |         |         |         |         |         |
| 2014 Cohort                    |         |         |         |         |         |         |
| 2015 Cohort                    |         |         |         |         |         |         |
| <b>Total FCF</b>               |         |         |         |         |         |         |

Assumptions:

Prime membership is only extended for 1 year

Amazon Student

| \$000s                                 |      |      |      |      |      |      | Amazon Student Member Mix |                               |                           |
|--|------|------|------|------|------|------|---------------------------|-------------------------------|---------------------------|
|  | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | Existing Customers        | Non-Incremental New Customers | Incremental New Customers |
| <b>Cohorts</b>                         |      |      |      |      |      |      |                           |                               |                           |
| Year 1                                 |      |      |      |      |      |      |                           |                               |                           |
| Year 2                                 |      |      |      |      |      |      |                           |                               |                           |
| Year 3                                 |      |      |      |      |      |      |                           |                               |                           |
| Year 4                                 |      |      |      |      |      |      |                           |                               |                           |
| Year 5                                 |      |      |      |      |      |      |                           |                               |                           |
| Year 6                                 |      |      |      |      |      |      |                           |                               |                           |
| TOTAL CP                               |      |      |      |      |      |      |                           |                               |                           |
| Fixed Marketing Expenses and Discount  |      |      |      |      |      |      |                           |                               |                           |
| Fixed Costs, Capex and Working Capital |      |      |      |      |      |      |                           |                               |                           |
| Free Cash Flow                         |      |      |      |      |      |      |                           |                               |                           |



Appendix I: FAQ

1. *What are the critical controllable inputs for your business? What are the outputs?*

Our inputs are the benefits we offer as part of the Amazon Mom and Amazon Student programs, marketing, promotions, email outreach, and on-site experience. The outputs are number of new members, DSV of members vs. their non-member peers, and retention of active members.

2. *How do you know you are succeeding?*

2010 Goals: Launch Amazon Student on July 12<sup>th</sup> and Amazon Mom on September 7<sup>th</sup>, sign up █████ Student and █████ Mom customers by end of year.

2011 Goals: Sign up an additional █████ new Mom customers (████ new to Amazon) and █████ new Student customers (████ new to Amazon), grow Mom member spend to █████ and Student to █████ achieve █████ retention of active members.

3. *What is the absolute top priority for your business?*

Sign up █████ Amazon Student customers by end of year, provide a customer experience that delights them. Launch Amazon Mom successfully on September 7<sup>th</sup>, sign up █████ customers by end of year.

4. *What were your top wins in the last month?*

Amazon Student successfully launched on schedule on July 12<sup>th</sup>, and as of August 29<sup>th</sup> has █████ members.

Amazon Mom has been piloting the █████ "Double your S&S savings" on diapers and wipes since June 28 leading to █████ YOY growth in Diapers GMS. In line with sales, Diaper new customer growth also jumped from █████ per month to █████ per month, partially fueled by positive experiments in print marketing. It's still early, but our August ads in parenting magazines generated a very promising █████ new diapers customers, at a very low █████ per new customer acquisition cost.

**Comment [RW12]:** over what period?  
**Comment [RW13]:** @SL - How much lift is being driven by new customers vs existing customers? May be selling the promotional aspects short...

5. *What were your top misses & learnings? What are you most disappointed about in your area (dirty laundry)?*

For Amazon Student, we underestimated the number of colleges that do not provide a .edu address (a requirement for the current sign-up form); for example, BYU offered .edu addresses in the past, but has now switched to .net. A short-term fix is now in place, and we have a plan for a long term fix (dependent on hiring the Lifestage Marketing dev team).

6. *What were your positive surprises over the last year? How are you doubling down on them, and what are the specific actions and programs that evolved from these positive surprises?*

We planned for a "soft launch" of Amazon Student, and didn't expect the volume or degree of positive viral press we saw. As a result, we have dedicated additional resources to Facebook integration, added a budget for Student-specific promotions and plan to develop a referral program in 2011.

For Amazon Mom, we have been positively surprised by the success of Print advertising, and intend to double down on our exposure in Parenting and Pregnancy publications to support the launch of Amazon Mom.

7. *Where is the biggest opportunity? What are the big needle movers in your plan?*

Our largest opportunity is convincing Moms and Students that Amazon is truly a solution to their manifold shopping needs, and convincing them of the benefits of making Amazon one of their primary shopping destinations across categories. Our 2011 marketing and promotions budgets address this opportunity.

8. *What "Dogs not Barking" do you worry about?*

Amazon Student signups to date have included some heavy purchasers who do not "look" like students. Non-students joining the program may have a dilutive impact on the student membership base and overall program results.

For Amazon Mom, we have not yet seen any competitive response from our 30% off Subscribe & Save diapers offer, nor have we seen negative feedback from our suppliers. We anticipate that if the program is as successful as we plan, that competitors will be required to offer a competing customer experience.

9. *What is your methodology to make priority decisions? What analysis have you done?*

Our 2010 Student launch plans were guided by a goal to exceed competitive experience on shipping convenience for textbooks, and increase Amazon's proportion of young consumers. Our "plan to win" with Students was borne out of 2009 focus groups and a resulting consumer survey of Student needs across textbooks and other product segments.

For 2010, our Mom launch plans were also guided by a goal to exceed competitive experience on price and shipping convenience for key consumable Baby items (diapers and wipes). Our "plan to win" with Moms was borne out of a competitive benchmarking review that highlighted gaps vis-à-vis key players in the Baby and Consumables space.

In 2011, our prioritization will be focused around driving the metrics of customer acquisition, cross-shopping, and retention.

10. *What are your disruptive ideas?*

Members should have a tailored site experience that, for Mom, is completely relevant to their family's needs (tabs could be dedicated to each of their children with product recommendations geared towards the lifestage of the child), and for Student is relevant to their school, major, and year. With the additional data we can access about customer through Mom and Student, we can build a hyper-customized Amazon experience.

Amazon Mom should be a premier destination for Moms to connect with other Moms, and to create and access communities that help them find the products that solve common parenting challenges. Community features (such as reviews and discussions) can be accessed as data sources for qualified 'Amazon Mom recommendations'; extracting data such as 'help your baby sleep through the night', 'getting through cold season', and 'holiday travel' that can be used to assist new Moms trying to navigate these age-old issues.

Amazon Student should similarly be a destination for customers to easily find all of their learning materials –available physically or digitally, and for purchase or rental, as well as multi-media on-demand. Customers purchasing physical textbooks should be able to instantly receive free digital chapters or a short-term digital rental to use until their books arrive. Community features will connect educators and students with each other, and with the products relevant to their courses (such as badged 'professor reviews' of texts, and free or priced professor-sourced materials). Amazon will be their partner throughout their reading career – starting by making required reading easy in college, and later their first destination for pleasure reading.

**Comment [j14]:** There's a weird spacing thing here. The spaces are too big.  
EP: should be fixed now

11. *What would you do with 10 more HC?*

Our first goal is to fill the headcount that is currently open for this program. Interviews are currently underway for Marketing Managers for each segment (Mom, Student, CE), and Traffic is looking to hire a Director to manage Lifestage programs. Our biggest gap is that we lack a technical team to own and drive the software roadmap that will support the on-site experience and future development efforts required to grow these programs.

After the technical and marketing positions are filled, Mom's biggest needs are additional Site Merchandising support for creating on-site offers, program emails, and copy that connects with the Mom customer (we are currently supporting the program through the sole site merchandiser on Baby). Student's goal is to fill the one open headcount for Site Merchandising (we are currently supporting the program through the sole site merchandiser for Textbooks and Buyback)

Finally, we would recommend doubling down on our 2011 plans with RCX by staffing RCX teams such as community & personalization with headcount that is dedicated to using Amazon Mom and Amazon Student program data to influence site features.

12. *Given that your top priority as a software engineering organization is operational excellence, what metrics are you going to track to ensure appropriate focus and progress on this priority?*

N/A

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<sup>i</sup> BabyCenter's "21st Century Mom™ Report", June 29, 2009,

[http://www.babycentersolutions.com/downloads/BabyCenter\\_21st\\_Century\\_Mom\\_Press\\_Report\\_Press\\_Release.pdf](http://www.babycentersolutions.com/downloads/BabyCenter_21st_Century_Mom_Press_Report_Press_Release.pdf)

<sup>ii</sup> BabyCenter, Baby Cost Calculator using inputs based on BabyCenter research and a survey of more than 1,000 new moms,

<http://www.babycenter.com/babyCostCalculator.htm>

<sup>iii</sup> Jodie Allen, Head of US Baby Care, Proctor and Gamble

<sup>iv</sup> According to figures reported by The College Board which estimate \$702/student/year; and cross-verified with census data 'The average estimated cost of books and supplies per first-time, full-time student for academic year 2003-2004 was \$898 at 4-year public institutions' as per GAO report <http://www.gao.gov/new.items/d05806.pdf>; also "2009 Trends in College Pricing" states that the average undergraduate spend on books and supplies for the 2009-2010 academic year will be \$1,122.

<sup>v</sup> GAO report on Higher Education: <http://www.gao.gov/new.items/d08245.pdf>

<sup>vi</sup> Retail All Hands Student presentation, Feb. 2009

<sup>vii</sup> US Census <http://www.census.gov/population/www/socdemo/school.html>