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Small Firms Tap Amazon's Juice

Web-Services Unit Gains Popularity Renting Storage, Server Capacity

 By **MYLENE MANGALINDAN**
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When Internet start-up Renkoo Inc. created a program called Booze Mail in June, its chief technology officer, Joyce Park, didn't want to set the program up on the company's main computer infrastructure. Instead, she signed up for **Amazon.com** Inc.

By doing so, Ms. Park joined a growing group of start-ups and entrepreneurs now turning to an unusual ally: Amazon. The Seattle Internet company, known for being one of the Web's biggest e-tailers, has recently been focused on delivering online services to small businesses through a unit known as its Web Services division. The unit provides services such as storage and advanced computing capacity, making Amazon an increasingly popular tech destination for small companies that don't want to pay upfront for their own computer infrastructure.


In Renkoo's case, the Redwood City, Calif., social-planning-tools company was concerned that its Booze Mail program -- a Facebook application that lets users send virtual "drinks" to friends -- might overload its computers if it attracted lots of online users. So Ms. Park turned to Amazon to "rent" server computers and computing capacity and keep Booze Mail off Renkoo's main computer system.

That turned out to be a good thing. Booze Mail became a hit, attracting 30 million users, compared with the average of a few thousand users that most Facebook applications attract, says Ms. Park. Amazon's online computer services allowed Renkoo to absorb the spike in Web traffic without crashing its own computers, she says.

"If you can't predict the amount of traffic, then (Amazon's) service is really awesome because it removes risk," says Ms. Park. "You don't have to invest in a lot of hardware you don't have to use." Renkoo pays Amazon about \$1,000 a week for the service, she says.

Started in July 2002, Web Services is part of Amazon's move to position itself as more of a technology company, even though its biggest business involves selling books, music and movies. According to comments from Amazon Chief Executive Jeff Bezos, the company is aiming to cater to three types of customers: individual consumers, merchants and software developers.

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The Web Services unit is seen by many as a way for Amazon to amortize and use its immense computer infrastructure, which runs heaviest during the fourth quarter. The company has invested about \$571 million in the past three years in capital expenditures on mostly internal-use software and Web-site development. By allowing other developers to tap its vast computing resources, it can generate some extra revenue.

"Amazon is a highly seasonal business," says Sucharita Mulpuru, a Forrester Research analyst. "They have a lot of servers. In the off-peak, it's a way to make use of assets that are underutilized."

Web Services also allows Amazon to nurture entrepreneurs creating programs that might grow into small businesses, which eventually might sell products on Amazon's marketplace, say analysts. It also allows the company to stay close to technology shifts as companies like **Google Inc.** and **Microsoft Corp.** produce more programs and services that users can access on the Web.

Adam Selipsky, vice president of product management and developer relations for Amazon Web Services, says the unit didn't spring up as a way to make use of underutilized servers. He says Amazon wanted to specifically target small businesses such as software developers, much as it catered to consumers and merchants who sell on Amazon's marketplace. "Amazon's goal is to be the most customer-centric company in the world," he says.

Apart from renting storage and server capacity, customers can also use Amazon's Web Services to do computations on Amazon computers, perform database-related functions and create payment programs and other processes. Unlike other similar services that require users to pay thousands of dollars upfront for capacity they don't necessarily use, it costs 15 cents per gigabyte for storage that is actually consumed on Amazon, say some users.

That's a boon for Jeffrey McManus. The self-employed computer consultant operates a Web site called Approver.com that lets people share and edit documents online. He started the site in August 2006 and funds it himself, using Amazon's online storage service to help him when there is a usage spike on his site.

"The key thing about Amazon's storage service is that it's a pay-as-you-go service," says the 40-year-old San Francisco resident. "We don't have to make this giant investment up front." He says he spends less than 1% of his monthly expenses on Amazon Web Services but declined to be more specific.

Another entrepreneur, Brad Jefferson, says Amazon's Web Services gives him flexibility as he gets his company off the ground. Mr. Jefferson, CEO of Animoto Inc., a New York start-up that lets people make music videos of their digital photos, says he will eventually have to invest in lots of computer hardware as his company grows. But he hopes his company can generate profits faster and without further investment from friends and family at the outset by using Amazon tools.

"With Amazon, with Day One of launch we could scale to the world," says Mr. Jefferson.

Overall, Amazon Web Services now boasts 290,000 customers, up from 135,000 in late 2005. Still, it remains a minuscule part of Amazon's business. Wall Street analysts estimate that the unit generates about \$46 million to \$92 million annually. That is small potatoes for a global company expected to produce about \$14.5 billion in 2007 revenue, according to Sanford C. Bernstein Research.

Amazon Web Services isn't problem-free. Some services are expensive, while the servers that operate some applications are old and often crash, says Renkoo's Ms. Park. Some of the Amazon servers that her company uses went down in July and developed problems again in December. "When something bad happens, you'd like someone to tell you," she says. Instead, "you tell them."

Amazon's Mr. Selipsky says that it guarantees certain performance levels for some pieces of its Web Services but doesn't yet ensure performance for other services such as the one Ms. Park uses.

Sean Hackett, a senior analyst at research firm IDC, says Amazon still has work to do to make its services ready for corporate customers. Big companies demand continuous service and rapid response to glitches, he notes, which Amazon doesn't provide today. "They don't have a track record within large corporations," he says.

Mr. Selipsky says some large corporations such as **SanDisk Corp.** and the **New York Times Co.** use Amazon's Web Services and adds that the company will continue to introduce performance guarantees for its services over time.

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