

Brian Gracely (00:00.942)

Good morning, good evening, wherever you are. Welcome back to the Cloudcast. We are coming to you live from the massive Cloudcast studios here in Raleigh, North Carolina. Hope everybody is doing well as we continue to move through September, 2024. are getting almost about two thirds the way through the month. We are almost into the fourth quarter of the year, almost into October. Hopefully everybody's doing well. Hope for the leaves are starting to change where you live. Although I know I just got back from Johannesburg, South Africa, and they are just beginning to have sort of springtime and summer is beginning to have.

for them. you know, I always want to be conscious that we do talk to an audience that's around the world and want to say hi to my friends down in Johannesburg that I got a chance to meet this last week. Great folks. Really enjoyed the conversations, really enjoyed the meals and having a chance to meet everybody. So, but anyways, hope everybody's doing well. Another Weekend Perspective show. And what I want to talk about today is Amazon, Amazon, not necessarily Amazon Web Services, but Amazon, Amazon CEO, Andy Jassy announced this week.

that they will be moving back as a company, I guess the entire company or at least, you know, whatever sort of fits into their, you know, people that have to work from the office, which I think for the most part with Amazon is pretty much everybody without, you know, without, with limited exceptions. They announced that they are moving from their three day a week return to office policy to a full five day a week policy. And he gave a number of explanations. There's a link to it in the show notes. What I want to kind of do today,

is dive in a little bit to some of the things that they talked about, but really kind of look at it from a bigger perspective, just because for the longest time, Amazon has been a company that has been much admired for both their technical acumen as well as their financial success, market success. And I want to dive into a little bit just to see if there are some things in there that we think may potentially be copied by other companies, whether those are...

other companies just across the industry or whether, you know, because of AWS's presence in the marketplace, this may be something that gets copied by tech companies. So something I want to dig into after the break.

Brian Gracely (00:02.44)

And we're back. Welcome back to the Cloudcast. I'm your host, Brian Gracely. And as I talked about at the top of show, I want to dive a little bit into the announcement by Amazon this past week to begin re -implementing a five -day a week return to office policy, or essentially returning back to the way that they worked prior to the pandemic, prior to the COVID pandemic, which started in March of 2020. So it's been basically four and a half years. They are giving about a

90 day grace periods. said they're going to start in January of 2025 to give people some flexibility to adjust to what they did. Basically, they called out two specific things that they're trying to do with their policy. Again, they frame it as an update to the company. This wasn't

entirely about work from home. There really was two pieces to it. The first was they announced that they have added too much headcount. They have gotten

a little too big, a little too bureaucratic, a little too sort of bloated, if you will, without necessarily using those words. But essentially what they said was, we've got too many people that are just managing groups, maybe getting in the way of process. And so the first thing they were going to do was they were going to increase the ratio of individual contributors to managers by 15%. So if you were a manager, you were going to...

you know, have 15 % more people reporting to you than you do before. Now, how they were going to go about implementing that, they didn't necessarily say. You know, it could be that they ask a number of managers to move back to being individual contributors. That's possible. They also could, you know, just lay off a number of managers. And, you know, the managers whose teams were, you know, affected would then sort of roll up to other people and you get to that 15 % number.

you know, all of this, at least the first part of the thing was talked about in the context of trying to increase efficiency, reduce bureaucracy, you know, improve their ability to get back to sort of the the Amazon culture that, you know, drove great stock returns and great market share and so forth. So, you know, that doesn't really come as a surprise. Basically, you know, the entire time that Andy Jassy has been CEO, that's essentially been kind of what he's been focused on. Right. In essence,

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you know, Amazon, when the pandemic took off was probably one of the largest hires, you know, they added just an enormous, enormous number of people, you know, try to take advantage of the market situation, try to, you know, take advantage of their financial acumen at the time, and grow in areas that they thought they could, you know, coming out of the pandemic, whenever that thing might have been, or if it was going to become the new normal, you know, they'd be better positioned in the markets that they wanted to go after.

you know, a lot of what Andy has been, you know, tasked with or what he's been focused on since taking over in basically July of 2021, I believe, you know, has been, you know, dealing with the fact that they really over hired. They got, you know, sort of bloated in certain areas. So he's been doing a lot of sort of cutting, adjusting, reallocating resources, trying to drive accountability across the business.

You know, this first part of the announcement in terms of, you know, trying to have, you know, less managers, you know, perceived to be people who maybe aren't necessarily doing the work. They're sort of, you know, sort of middle tier of people who kind of get in the way. And that makes a lot of sense. That sort of aligns very much the Amazon culture of, you you build it, you operate it. We want builders in the organization. We want less people that are in the way of, you know,

getting, you know, having decisions get made and then actions being taken. So, you know, that piece of it wasn't a surprise by any means. It's very much been in line with what Andy's been focused on the whole time. The second part of it though, has raised quite a bit of attention and maybe it's just simply for Amazon, right? Maybe it's not necessarily something that, you know, the rest of us shouldn't actually care about, but essentially what they said was, are going to, we would like to get back to the culture that

created Amazon or the culture that was dominant in the 2010s and kind of pre -COVID. And they believe that part of that happens when they have people full time in the office. And Amazon's one of those country companies, and there's a number of them, Google was very much this way, in which the preponderance of people who work there, the vast majority of people who work there across lots of different functions, not just Amazon, but lots of different functions, retail and video and all sorts of other things.

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You know, had to work in the Amazon office. And this was something that, you know, know Aaron and I have, you know, had some familiarity with, you know, in talking to them over the years about potential jobs and other things. You know, for us, it was always a no starter because we didn't necessarily want to live in Seattle or it might've been Northern Virginia or any of those things. And so we always chose not to work there. not out of, you know, not wanting to work there, not out of opportunity, but really just because we enjoyed living in North Carolina.

And for, for Amazon pre COVID that was a, that was a deal breaker. That was a no, you know, no starting thing. And so that was fine. You're, think people kind of understood that. Now what was interesting obviously is when COVID started, they allowed people to, work from home because, you know, health reasons and all sorts of other things. And so, you know, and that was not by any means unique in the tech industry or unique anywhere else in the world. Now, what I think is sort of unique in the tech industry, and I want to put this into context because I don't.

want this to be a show in which we're critical about Amazon's decision, people can be critical about it for various reasons. So for example, you know, if you are a caregiver, if you've if you're somebody who said, look, over the last four and half years, I've been very effective at my job. I've been working from home. I, you know, saved myself two hours a day, commuting into the office, you know, an hour each way or 45 minutes each way, whatever your commute might be. And that time has been allocated towards work.

And you might say, look, my life is essentially set up around working from home lifestyle, right? Whether that's you're a caregiver for small children. So let's say you're a single mom. You've allocated things. Maybe you are just part of a family and you've rearranged your life around these last four and a half years. Or potentially you've said, well, there was no indication prior to a year ago.

and you had the financial means or you had the ability to move somewhere and you were like, hey, I've been doing my job. you know, this is where I think the crux of the debate really comes

in is an individual assessment of whether or not you believe you're still capable of being effective in the job versus the company saying, this is the way that we think it's most effective for the biggest number of people to be there.

Brian Gracely (07:13.384)

And I did a little bit of looking around just at some numbers. And again, these are really, really, really basic sort of cherry picking of a few things. if we look at, let's say the last four years of Amazon, right? So if we go back to say March of 2020 when COVID first started, their stock rose significantly from, let see if I got the numbers in front of me. Basically rose from, let's see, March of 2020. This is not great podcasting, but.

March of 2020, stock was \$120. At the peak of sort of the pandemic and in the middle of pandemic, so August of 22, stock got up to about \$160. So it grew quite a bit. Some of that's probably split adjusted, I believe. So it grew 120 to 160. So it grew about a third. And then people started to realize, OK, this pandemic is going to have an end in sight. We're seeing vaccines. We're seeing

So people returned to traveling and interacting with other people. So again, a year, almost a year and a half into this. And then their stock sort of crashed, came crashing back down to 100, or it came down to, let's call it \$95, \$97. This was sort of the beginning of 2023. So the stock went from 120 at the beginning, grew to 160, dropped back down to 95, maybe 100. So yes, there was some fluctuation in there. And that was all during the time in which

people were working from home. then since then, since they've implemented this new policy, which really kind of went into effect sort of December of 2022, stock was \$87. And if we look at it now, you know, they've been at sort of three days a week, the stock is \$189. So basically, let's just call it doubled since they went back to this three day a week. you know, at the most basic level, they could sort of argue, well, you know, while we were working from home,

in the upside of the pandemic, things grew. People thought Amazon was going to take even more share than they did. We started working from home. We went through some things. The stock went down. Now again, a lot of that's probably attributed to they hire too many people. But since they've implemented this sort of new thing, you could sort of point to the fact that, we put this policy in place three day a week and the stock has been up 2x. It went from basically 90 bucks to 190 bucks, a little more than 2x.

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Could you attribute all that to return to work? No, not necessarily, right? Like a lot of that has to do with the economy recovering, has to do with them being more efficient in how they run their business and all sorts of other things. at the most basic level, you could kind of argue, well, if I look at the data, that's kind of what's happened. Now, again, that is a super, super simplistic view of things. Now, the other thing that a lot of people are talking about, and again, this is where I kind of get into, we're not.

criticizing, we're not necessarily evaluating whether this was a good thing for Amazon or not. But, you know, the other thing people are saying is this is an opportunity for them to basically say, this is a new policy. And again, you know, I don't know all the details of what their three day return to office versus five day return to office, how much exceptions they had, how much, how flexible they were about people that weren't in the major hubs versus, you know, having moved or whether it was department by department.

But this does allow them a little bit of flexibility in terms of, know, one of the most costly things that you can have happen is to do a big layoff, right? And they've sort of signaled to the market a number of times that, we're still too many people, we're still too inefficient, as I talked about the sort of the first half of this letter that was sent by Annie Jassy. And so this does give them a little bit of flexibility to do a couple of things. You know, if you announce a mass layoff, number one, you typically have to pay

some significant amount of severance to people anywhere from, know, again, it depends on the thing. I've seen anywhere from two weeks to a week for every year that you've been there. I've seen companies do a year. I've seen companies do two years. you know, if you lay off 10 ,000 people, 5 ,000, I mean, Amazon is a very, very large company, hundreds of thousands of its employees, especially when you get into all the factories and all those other stores, or not the factories, the warehouses and other things, you know, laying off 10 ,000 people, 15 ,000 people is a fairly significant amount of money, right? And

If you could use the policy and be like, well, you know, if people don't want to come in, if they choose, if they arbitrarily choose not to work in the way that we want them to work, we don't have to lay them off. They're essentially choosing to quit, because it doesn't fit them anymore. it is, you know, it is a corporate way of doing selective layoffs or silent layoffs that, you know, don't necessarily get reported as layoffs or even if they are reported as

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know, loss of employees, you're doing it at a much cheaper rate than you would have otherwise, right? The other thing that's been speculated, and I don't know how much of this is true because if they've been doing at least three day a week, returned office, you know, you have, you know, typically, especially with larger or larger organizations, you know, the, state or the local government typically will give those businesses tax breaks, you know, corporate tax breaks, because if you've got people working in the area, those people are also

generating income, therefore they're generating taxes for the local base. And so there may be aspects of this, again, not specific to Amazon, but at a corporate level where there are corporate tax advantages or sort of tax true ups for having a certain number of employees working or a certain number of employees in a certain area. And so this is one of these interesting situations in which right now,

You know if you were to say hey, well, how's the how's the hiring market in the tech space you would say it's it's not great It's soft, know, we're hearing stories of people going through dozens

and dozens of interviews to define a job You know people are not necessarily making the same amount of money that they were five years ago And again, you know some of that is relative because people were making a ton a ton of money Maybe maybe too much relative to the market But you know, they're announcing this at a time when the market is soft you know, there's always sort of a

who's got more control of the situation? it more the employer or the employees? I would say right now the employers probably have greater leverage over their employees. And so, it seems to be that Amazon is attempting to do things at a business level that align to Andy's biggest sort of charters and focus areas, which is to get the business more effective. They are using the idea of if the more we work together, the more we

embrace the Amazon culture, the more we're going to be innovative and respond to our customers, that very well may be true. Amazon is a very, very data driven company. I think the question that will be interesting to watch is not so much, should we analyze what Amazon is doing? They're their own business, they make their own decisions. But will we see a lot of other industry, a lot of other companies in the tech industry in particular, start to emulate this?

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Right. you know, tech is one of those industries in which, you know, as a workforce, we've adapted really, really well to remote work, right? So much of the work that we do is sort of knowledge work. You don't necessarily have to be, you know, in a physical location. Yes, there can be times when working together with your colleagues is, is useful. but, you know, we, we adapt really well to, to telework or remote work. we adapt very well to, you know, sort of having

know, longer hours as it is. And, you know, so I think it's going to be a very interesting thing to sort of watch, because, you know, pre pandemic, Amazon was one of those companies that was, you know, highly, highly watched, you know, was considered to be very, very industry changing. And it will be interesting to see if you know, we see more and more tech companies kind of go back to this, you know, decide that their growth is not going fast enough.

They believe that the way to fix that will be you know through return to office. So it's gonna be interesting It's definitely something that you know has more significant impact to certain types of individuals again, depending on how important you are at Caring for your family caring, you know, whether those are young children or you know sort of elderly people whether you have had the flexibility to to move somewhere away from one of the large cities maybe a Boston or Seattle or

San Francisco or something that gave you a better standard of life than you liked before or just a different life than you want to be for, how much flexibility you'll have to continue to work remote. So I think it's going be very interesting. think the timing of it again is interesting because again, the market has sort of shifted to where the leverage is more for the employer than the employee. There's some uncertainty about

the economy with elections and all those sort of things, the economy still does seem to be fairly strong. We've seen rate cuts and so forth. yeah, it's going to be one of those things where, will this be Amazon specific? Will we see companies waiting multiple quarters to sort of see the results come? If they start in January, are they going to be looking at this in April, in July, in Q1, Q2? Will it be something that Amazon highlights? Will they find a way to sort of create a metric around

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hey, the more collaborative we are, we're seeing certain things happen, or will this just sort of, you know, kind of get swept under the rug and we won't really think much about it, you know, and, you Amazon will be Amazon and they'll have their growth rate the way they will. anyways, just something to sort of keep an eye on, you know, again, you know, when one of the largest companies in the industry makes some moves, we'll see if they still continue to have kind of the power to shift markets or to be, you know, considered a

sort of a lighthouse or a thought leader or a kind of structural leader? And do other companies follow or do companies just sort of follow it to see if it makes sense for their business? And I think that's really good. What's going to be the interesting decision is, we sort of see who will follow in sort of a sheep manner or do we see them really trying to understand their business specifically? Have they been effective with work from home people? Have they been effective with more flexible return to office? Do they?

start to look at creative ways in which they create new hubs so that people don't necessarily have to spend as much time commuting or other types of things like that. anyways, just something to sort of keep an eye on. We're always trying to find the right balance between covering technology, covering the people that have to build and support the technology, and then the economics around it. So this is one of those topics that really touches all three of them. anyways, with that, I'm to wrap it up. Thank you all for listening. Again, I apologize if my.

Voice seems a little hoarse doing a lot of traveling this month. think I figured I'm traveling about 40 ,000 miles between the beginning of September and sort of middle of November before Thanksgiving. So quite a bit on my plate, but lots of things to talk about. So thank you all for listening. As always, thanks for telling a friend. We got a really nice award from, or at least a recognition from one of the industry analyst firms is one of the top five innovative podcasts. thank you for, thank you all for listening and thanks for telling a friend, your support of the show.

You know drives things like that. So it's you know, rewarding for us So anyways with that we'll wrap it up and we'll talk to you next week