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Amazon Bought This Man's Company. Now He's Coming for Them

By Brad Stone January 07, 2015

(An earlier version of this story ran online.)

The historic downtown commercial district of Montclair, N.J., is known for its restaurants, antique shops, and art-house movie theater. It's not usually home to lavishly funded attacks on the entrenched giants of global e-commerce. Yet on the second floor of a three-story red-brick building on Bloomfield Avenue, across a parking lot from a fancy pizza joint and up an unmarked stairwell, are the offices of one of the biggest bets in the history of online retail: a 100-employee startup called Jet.com.

Jet is the brainchild of Marc Lore, the founder and former chief executive officer of Quidsi, a company best known for its most popular website, Diapers.com. He spent years competing with Amazon.com (AMZN) before getting clobbered in a price war and then, in 2010, selling out to the company for $550 million. Lore stayed on at Amazon for more than two years; now he's preparing to assault it.

He wants to reinvent the wholesale shopping club. Jet plans to open for business on a "friends-and-family" basis in January and will start limited sign-ups on Feb. 20. Customers will find just about everything, from clothes, books, and electronics to baby goods and athletic gear. After a 90-day free trial period, Jet customers will be asked to pay $49.99 a year for access to what Lore claims will be prices that are 10 percent to 15 percent lower than anywhere else online.

Like Costco (COST), Jet plans to make money on membership fees. Every other savings will be passed along to the buyer. And like EBay (EBAY) and the dominant Chinese e-commerce player, Alibaba.com (BABA), it will function primarily as a marketplace, allowing other merchants to compete to offer their wares to customers. But there's a twist: Shoppers can squeeze out more savings if they can control the urge for instant gratification and let Jet figure out how to deliver the goods as economically as possible. For example, prices can drop when a shopper combines multiple orders into a single shipment or is willing to wait for a seller offering a more economical shipping option.

[Behind this week's cover]

[Photographer: Jason Nocito for Bloomberg Businessweek. Stylist: Sonia Rentsch]"The bottom line is, we're basically not making a dime on any of the transactions. We're passing it all back to the consumer," Lore says from a conference room in his Montclair headquarters. "We want to build a different type of relationship with the consumer. When we show you a product, it's not because we are making money on it and not because we are closing out a line. It's because we think it's a good deal."

Lore reassembled members of his old Quidsi band and has raised one of the largest seed funding rounds of all time. Before completing a single sale, he's collected $80 million from venture capital firms NEA, Bain Capital Ventures, Western Technology Investment, and Accel Partners, the firm that backed Facebook (FB), and plans to raise hundreds of millions more. It may be the riskiest bet on an unproven e-commerce business model since Amazon itself raised billions in debt in the late '90s, when it was still highly unprofitable.

"This idea is massive," says Patrick Lee, a partner at Western Technology Investment. "If Marc is right on this one, it will be multiple times bigger than Quidsi ever was."

Lore founded Quidsi in 2005 with his childhood friend Vinit Bharara and built it while Amazon focused on media categories and hard goods like TVs and kitchenware. Lore and Bharara built a reputation for excellent service, adding a personal touch that resonated with customers. Diapers and other necessities, packed in blue, red, and green boxes—often with a handwritten note inside—arrived promptly at the doorsteps of grateful new parents. By 2010, Quidsi was pulling in about $300 million in annual sales.

Then Amazon took notice of Quidsi's rise and, in the fall of that year, cut diaper prices by a third. Lore calculated at one point that Amazon was on track to lose $100 million over three months on diapers alone. Quidsi's profitability sank, and Lore was forced to sell out to Amazon during the Great Recession, when additional capital to fund the fight was impossible to obtain.

Lore and Bharara spent a little less than two and a half years inside Amazon. (Bharara is an investor in Jet but has founded his own startup, online magazine Cafe.com.) Lore, whose default mode is tactful and earnest, tries to steer away from criticizing Amazon but frequently can't help himself. "I felt like I did everything I could do there," he says. "Little by little, they started wanting more and more control."

A few weeks after Lore left, Amazon cut out the distinctive colored delivery boxes. It was a move to reduce costs, but to Lore it symbolized an operating philosophy he doesn't share. "It was a superlogical decision, and I'm sure the numbers worked out fine," he says. "But you can't put a number on what it means to create a personal connection to the consumer."

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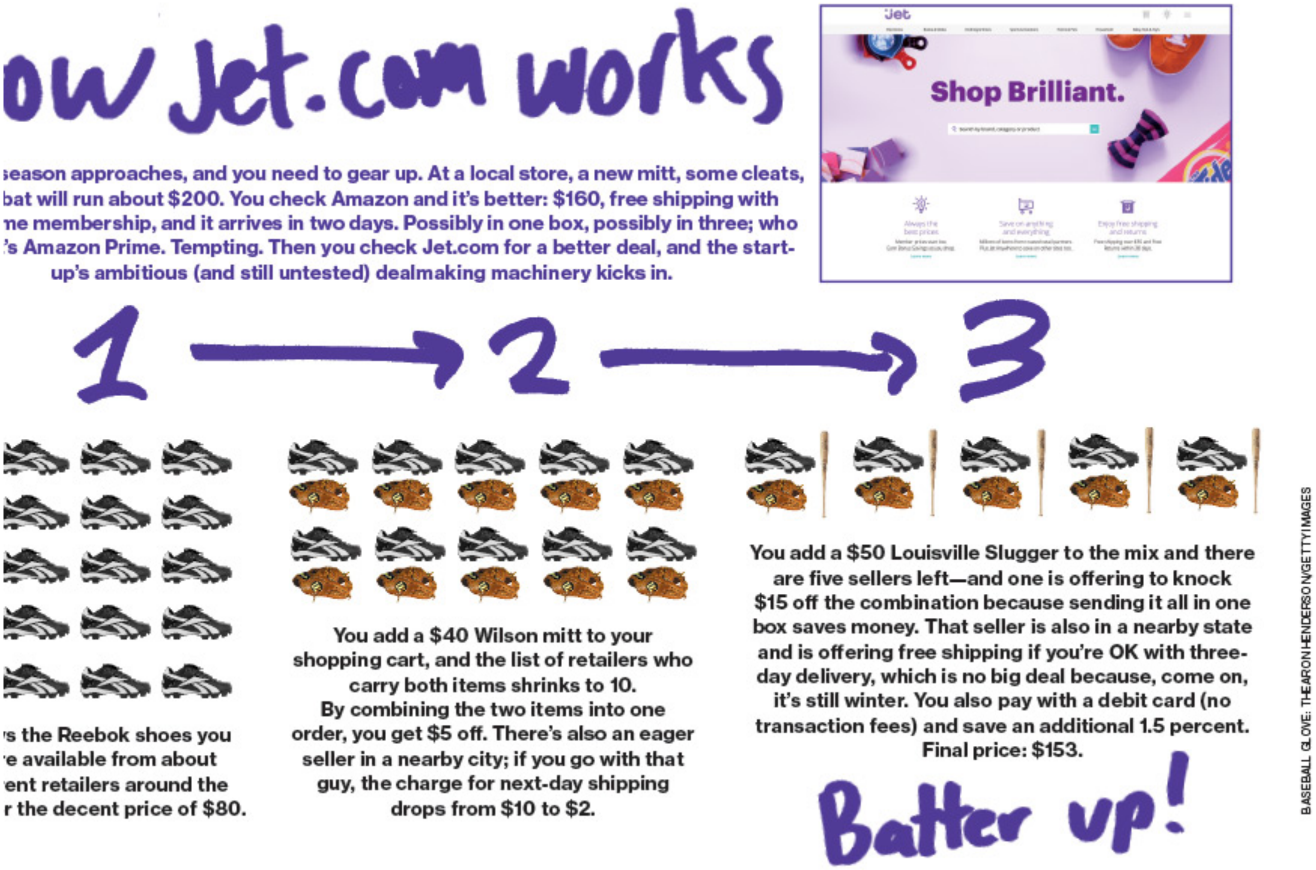
Lore watched these moves from afar, as he was trying and failing at an early retirement. He has two teenage daughters and, after he left Amazon, spent a few months with his family living in California wine country. He also invested in Lot18, a wine delivery company, though he sold his stake back to the company when he realized he had ideas about the business but as a passive investor couldn’t actually see them through.

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

He took inspiration from Costco, which invented a new category of discount retail, the members-only warehouse. It saved money by locating its cavernous, no-frills stores in out-of-the-way places and stocking them with a limited variety of supersize products—and it passed those savings on to shoppers in the form of lower prices. Costco, Sam’s Club, and other chains now have more than 100 million paying members in the U.S.

A few weeks after he left Amazon, Lore had lunch in New York with Sameer Gandhi at Accel and said he wanted to bring the membership-based shopping club model online. It was just a germ of an idea, but Gandhi wrote him a check for $1 million anyway because Lore had a record of making and then delivering on big promises. “When you are ready to do it, here is your seed money,” Gandhi told him.

Lore’s first task was finding new ways to squeeze costs out of e-commerce transactions. He started with packaging and shipping. With Jet.com, customers will be able to make multiple online purchases from a range of sellers and combine the merchandise in one box, which is then cheaper to ship. Jet turns these savings over to the customer. When Jet.com members add more items to their shopping cart, they’ll see the price for each product fall.



The trick will be to persuade shoppers to load up their carts instead of buying individual items impulsively. "We need to open people's eyes a little bit," says Mike Hanrahan, a former executive at Quidsi and now Jet's chief technology officer. "If we can educate them that, 'Look, instead of buying one thing every week, come back every two weeks and buy two things and you will save a few percent,' it's actually a lot of money."

Buyers will also save by being offered items from sellers located near them. In a perfectly efficient online transaction, customers would buy only after filling their digital carts from nearby stores. Jet is more likely to emphasize merchandise that is physically close to the buyer and, again, pass the savings along.

The Jet model wouldn't have worked a few years ago, but now that nearly every merchant is online and looking for new ways to compete with the likes of Amazon, it might. So far Jet has signed up Sony Store (SNE), electronics retailer TigerDirect.com (SYX), Sears Hometown & Outlet Stores (SHOS), and hundreds of smaller retailers. BabyAge, a Jet.com seller based in Jenkins Township, Pa., spends $5 to ship to the East Coast, on average, and $15 to California. Usually the site sets prices that cover the highest possible shipping costs. But using a set of online pricing tools that Jet is making available to its sellers, it can reward the most efficient transactions. For example, a Graco stroller that might cost $119 on Amazon will cost $108 for anyone on Jet buying from BabyAge in the Northeast. "This is going to produce regional specialty in e-commerce, because now I'll be able to sell for less than Amazon," says Jack Kiefer, the company's CEO.

Jet customers will get to choose whether to use a debit card instead of a credit card, and if they do, once again they'll watch the prices for individual products fall by roughly 1.5 percent. Similarly they'll have the choice to opt for delivery times of a week or more and to tap the savings that come from shipping via ground instead of air. Jet itself will sell some high-volume items such as diapers, dog food, and paper towels from fulfillment centers in Reno, Nev., and Swedesboro, N.J.

Because software can be used to track every possible decision they make on the site, customers will be able to watch their savings add up and judge whether it's worth the annual fee. "It's going to be a no-brainer," Lore claims. "Every household in America should have a Jet membership. Why not spend $50 bucks to save $200?"

Lore, 43, is that rarest of tech entrepreneurs, a very Jersey guy who's as much a student of Bruce Springsteen as Steve Jobs. He spent his early years in an Italian neighborhood on Staten Island, before his family moved to Lincroft, N.J., while he was in middle school. His father owned a computer consulting firm, and his mother raised the kids—Lore has two younger siblings. His parents fought frequently, to which he attributes his visceral distaste for conflict.

Lore was showing an entrepreneurial bent by age 6, when he charged family members 5¢ each to watch Casper the Friendly Ghost on a slide projector; he came up with a story for each frame. By 14 he was trading stocks using his parents' money and buying and selling baseball cards at trade shows.

Bharara, his childhood friend, calls Lore "a human calculator" who's almost eerily talented with numbers. Lore didn't apply himself in high school, however, frequently opting to sneak down to the casinos in Atlantic City and count cards in blackjack. His track coach, fearing that Lore might flunk out of high school during his junior year, refused to let him train until he improved his grades. Something clicked, and Lore raised his grade-point average to 3.9 and got a near-perfect score on his math SAT. He got into Bucknell University and became the first member of his family to attend college.

Photographer: Jason Nocito for Bloomberg Businessweek

After graduation, Lore spent a few years working in risk management for Bankers Trust and Credit Suisse First Boston in New York and then for Japan's Sanwa Bank in London, raising red flags on chancy trades and generally getting ignored by the hotshot traders who were making a killing with credit-default swaps and other newfangled derivatives. One morning when he was 27 years old, Lore fell to the floor in his office, feeling an electric jolt in his chest. It was stress and the result of overwork, not a heart attack, but Lore got the message, left finance, and started following his entrepreneurial passions.

His first company, The Pit, let sports fans value and trade sports collectibles like shares of stock. He sold the business to the Topps trading card company in 2001 for a modest $5.7 million, less than 12 months after starting it. Lore moved to Seattle to run a division of Topps, which is why, a few years later, he found himself at a picnic for his daughter's private school, hobnobbing with another school parent: Jeff Bezos.

Lore had just started Quidsi, then called 1800Diapers, and at the barbecue he joked to Bezos, "I hope to give you a run for your money." Bezos didn't seem to remember that encounter years later, when they met again after Amazon acquired Quidsi.

Lore says he has “no bad feelings toward Jeff and Amazon.” But in many ways he has conceived of Jet.com’s culture as the antithesis of Amazon’s, which is known for its confrontational style, internal secrecy, and deliberate avoidance of friendly consensus. It also requires employees to sign noncompete agreements and, in fact, locked Lore into one that expires early this year.

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At Jet, there will be no annual performance reviews, because Lore thinks feedback should be immediate and civil. Board presentations are posted online for the entire company to see. And Lore isn’t making any of his employees sign noncompetes; he says that “what goes around comes around,” and that without such stipulations “there’s more loyalty and trust that is built.”

“If someone is unhappy here and doesn’t see an opportunity for growth, OK, good luck, go to Wal-Mart,” he says. “I want to prove to myself that a different kind of culture can work and that you don’t have to be like that to be successful.”

The implicit criticism of Amazon, the company that nearly drove Quidsi out of business but eventually made Lore wealthy, isn’t lost on some outside observers. “There’s definitely a history of folks being acquired by Amazon, living inside it, learning from it, and coming out with a bit of a chip on their shoulder,” says Scot Wingo, who’s CEO of ChannelAdvisor (ECOM), a company that helps other retailers sell online and has been briefed on Jet. “They go inside, and it creates a bit of animosity when they come out.”

Jet is building new offices in Hoboken, on the Hudson River overlooking the Manhattan skyline, which should be ready shortly after the site goes nationwide in March. The floor plan will be completely open. Lore himself won’t have a desk; he says he’ll roam between meetings.

The startup’s success is hardly assured. Sellers won’t come to the service until it’s got customers, and to get those it has to persuade many online shoppers, who are quite satisfied hunting for bargains at Wal-Mart, EBay, and Amazon, to try something new and pony up $50 for the privilege. (Jet.com plans to use much of its seed money on a massive branding campaign that will feature television, radio, and outdoor advertising.) “It’s extremely hard to change people’s behavior, though they proved with Diapers.com that they could get millions of people to buy diapers from them,” says Wingo.

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

Either way, Lore will probably need a lot more capital. He’s talking to Google Ventures and other investors about raising a second round of funding. He may also find interest abroad—China’s Alibaba and Japan’s Rakuten (4755:JP) are both looking for ways to enter the U.S. market. “He has the ability to raise capital like no one I’ve ever seen,” says Bharara of his friend. “I mean that in the best way. He sells using math together with a big vision and the ability to execute it. It’s a very powerful combination.”

Lore’s investors, many of whom hit it big on Quidsi, seem almost giddy about the size and risks of the bet. “All of us in the investment syndicate realized that if this was going to succeed, it needed to have significant resources,” says Accel’s Gandhi. “It’s the kind of thing we all like to do: very ambitious and full of things that can go wrong.”

Stone is a senior writer for *Bloomberg Businessweek* in San Francisco. He is the author of *The Everything Store: Jeff Bezos and the Age of Amazon* (Little, Brown; October 2013). Follow him on Twitter @BradStone.