ACCOUNTING in the headlines

How should Amazon Web Services price its services to Zappos?

Amazon.com has some of the biggest data centers in the world, where it runs cloud-based hosting services. Amazon Web Services, Inc. (AWS), is the division of Amazon.com that provides compute, storage, and database services to a wide variety of companies, including GE, Netflix, Pfizer, Pinterest, and others.

Amazon's divisions also use its cloud-based hosting services. Amazon has several divisions; one of these divisions is Zappos, an online shoe and clothing shop.   Assume Zappos uses AWS's cloud-based hosting services.

Other cloud-based hosting services exist, including Terremark, Savvis, and Dimension Data.

Questions

1. What possible pricing methods could Amazon use to set the transfer price for AWS's cloud-based hosting service to Zappos?
2. Why might Zappos' management argue for a discounted transfer price?
3. Why might the management of AWS argue for a transfer price at the market price?
4. What advantages could Zappos experience from using Amazon's AWS services? What advantages could Zappos conceivably experience by using a different cloud-based hosting service?
5. Should Zappos be allowed to use a cloud-based hosting service other than AWS? Why or why not?