

**BUS 478: Seminar on Business Strategy**

**SYNOPSIS**

**PROJECT:**

**AMAZON.COM**



**Group G**

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## **Company Background**

When Amazon was founded in 1993 by creator Jeff Benzos, it was mostly an online bookstore. Initially Amazon's growth was very slow, not turning a profit until over 7 years after its founding. This was thanks to the great momentum provided by the dot-com bubble. As time went on, Amazon became widely known as the place to shop for books, and the self proclaimed: "world's largest bookstore". As time progressed, so did Amazon's business strategy. Amazon transformed their corporate-level strategy into a mergers and acquisitions approach and did this with great success.

Amazon's goal today is to be a place a customer can go to purchase *anything* online. Amazon has transformed from a garage-based bookstore into a \$48 billion dollar retail machine. They have been able to do this thanks to the power of technological progress. Computational power, bandwidth and data storage technologies all have improved and have become relatively cheaper over time.

In the present day, Amazon sells products in over forty categories. They have everything from books to electronics, to groceries. Today Amazon is a logistics platform, a search engine, an Internet advertising platform, as well as fulfilling roles as an e-commerce and IT platform. The key areas of focus for Amazon are low prices, convenience, selection, and availability.

## **External Analysis**

### **General Environment**

#### *Economic*

Since the start of 2008, the global economy has been in a recession. The World Bank reduced each country's expected GDP growth for the year of 2013. The low GDP growth and high unemployment rate have reduced people's wealth and purchasing power of goods. When the market tanked, many people chose to migrate their shopping onto an online platform. In 2011, online sales actually increased by 11 percent despite what people imagined. The reason this has

been occurring is that many consumers are changing their spending habits toward finding “bargain goods”. Amazon has been able to benefit from this greatly thanks to their ability to offer affordable goods quickly and easily to the general public.

### *Sociocultural*

Online shopping has grown dramatically in popularity over recent years. E-commerce is convenient since there are no geographic restrictions and consumers can have access to a selection of goods wherever and whenever they want. Moreover, there is an unlimited selection of merchandise for customers to review and compare. These advantages shift customers’ shopping behavior from retail stores to online shopping. According to a survey of online shoppers: 48 percent of respondents shopped online in the past 12 months, 66 percent preferred web retailers, and 73 percent completed nearly half of their shopping online. The increasing popularity of online shopping is providing a foundation for Amazon to exploit their core competencies.

### *Global*

With the advances in modern tech support and web security, people are getting more and more willing to make purchases online. As the economies of emerging markets are rising dramatically, people in those countries with increasing purchasing power are spending more on online shopping. Services such as Amazon are able to exploit this opportunity by offering consumers goods which are not readily available in local markets. While firms expand internationally, it is critical to take into account of the differences in consumer preferences.

### *Technological*

The Internet is an excellent source of data that provides the most timely available information that captures the shift in consumer preferences and trends. As technology has been rapidly advancing, businesses have been influenced by technological innovations. For example,

online payment methods such as online banking and PayPal create more convenience in purchase transactions, which in turn enhances customers' online shopping experience. Also, the invention of electronic devices such as smartphones deliver easy and convenient transaction processes, further facilitating online shopping. For instance, Amazon recently released a smartphone app for their Kindle services, allowing users to conveniently access the online sales platform and review products before purchasing. In the future, the use of 3D virtual technology to market products will also take online shopping to new heights.

### Political/Legal

In the modern day environment, firms must be cautious when they deal with international policies on online distribution. In the U.S., electronic commerce firms are regulated by the Federal Trade Commission, which regulates online advertising and the security of consumers' personal information. On the other hand, International Consumer Protection and Enforcement Network (ICPEN) finds ways to tackle consumer problems involving cross-border transactions in both goods and services. This helps to ensure participants equally benefit and reach mutual understanding. Online retailers such as Amazon should be careful to disclose online sales taxes while advertising products to other countries via online shopping platforms because different sales taxes can cause confusion to customers.

### Demographic

As the world's population is aging rapidly, baby boomers are moving towards retirement so that they will have weaker purchasing power. Thus, generation X and Y have become companies' target markets for product selling. These generations are technologically adept and tend to engage more in online purchasing. Based on a survey, 62 percent of Generation Y liked to purchase things online, as compared to 32 percent of those aged older than 50. Organizations

should also exploit opportunities from emerging countries, such as China and India, which have large populations and growing disposable income. Based on a global survey of online shoppers, people in China engaged in online shopping 8.4 times more than those in any other markets on a monthly basis. Thanks to the network of distribution services and the power of E-Commerce, Amazon is in a position to utilize its core competencies in order to capture the global market.

## **Industry Analysis**

### *Threat of New Entrants*

The threat of new entrants is considered to be low. It is easy for companies to start-up in this industry due to the relatively low capital investment costs. However, to achieve the position in the industry that Amazon holds it would require huge investment in infrastructure and inventory. It is also hard for new entrants to gain customer loyalty since the existing major competitors, such as Amazon, have established a loyal customer base.

### *Bargaining Power of Suppliers*

Suppliers have little bargaining power due to the substantial number of suppliers available and the vast expanse of the online global distribution network. Many suppliers rely on key online retailers such as Amazon to engage in bulk purchasing. Thus, online retailers can easily switch to another supplier for lower price and better quality. Bargaining power of suppliers to Amazon is particularly low since suppliers do not require payment until 35 days after the confirmation of sales.

### *Bargaining Power of Buyers*

The bargaining power of buyers is high. Customers have the options to choose among numerous online stores for the lowest price products and services due to the completely available

information online. The fact that Amazon is able to reduce their overhead costs by not having retail locations allows them to achieve these low prices, enabling them to compete in the industry.

#### Threat of Substitute Products

The threat of substitutes for Amazon is high. The only unique characteristic Amazon has is the patented technology (such as 1-Click Ordering), which differentiates them from other possible substitutes. However, there are many alternatives providing the same products and services, which could reduce Amazon's competitive advantage. Therefore, Amazon does not have absolute competitive advantage on their product offerings, but they definitely have the advantage when it comes to the quality of customer service and convenience provided.

#### Rivalry Among Competing Firms

Rivalry among competing firms is high. There are a vast number of search engines on the Internet which are able to influence customers decisions when searching for the best online retailer. There is also an increasing number of dot-com retailers due to the relatively low start-up costs of the business.

### **Competitor Analysis**

As the fastest-growing, multinational e-commerce retailer in America, Amazon has an international presence over various categories and faces an intense competition. Based on the similarity in the breadth of products, geographic market coverage, and scope of business, three major competitors are identified: eBay, Barnes and Noble, and Wal-Mart.

Wal-Mart, as the world's largest retail chain, utilizes a cost leadership strategy with low cost management in value chain to market its products at the lowest price through both e-commerce and physical stores.

eBay, operating as the biggest online auction house and focusing as a service provider, employs cost leadership strategy by solely operating e-commerce as an intermediary without holding any inventories or physical infrastructures. It also applies a differentiation strategy by providing a variety of products, high-quality service security, and E-commerce services.

Barnes and Noble, America's largest book retailer operating both online and physical retail businesses, competes intensively with Amazon for the market share in the book industry. It pursues an integrated focused cost leadership/differentiation strategy to target price-sensitive consumers by providing books not readily or commonly available at a less expensive price.

The competitors' analysis can be summarized as below:

- 1 Future objectives: Competitors want to compete for a good strategic position and become the market leader in both e-commerce and physical commerce.
- 2 Current strategy: Competitors aim to increase profitability, gain market share, and provide a wide variety of products to compete against Amazon through utilizing competitive pricing, cost leadership, and differentiation strategies.
- 3 Assumptions: Competitors believe that the demand for online shopping will continue to grow as consumers seek for more convenient and efficient ways of shopping.
- 4 Capabilities: Competitors offer similar products as Amazon either at a lower price or accompanied with differentiated services. Some of them have an international presence with stable financial performance, enabling them to form global strategic alliances to increase their market base of customers.

### **Current Situations & Challenges**

Amazon uses huge amount of data storage to improve customer service. However, Amazon's Elastic Block Storage (EBS) service has been down several times in 2012 due to an

electric outage. The main problem comes from the Amazon's U.S. East data center in Virginia, which is the biggest and the oldest data center that has been causing outage issues. The company needs to do major upgrades on the U.S. East data center to prevent the services from going down in the future. Otherwise, the server crashes can bring inconvenience and discomfort to the customers who use the website regularly.

Some of Amazon's services such as Kindle and Cloud have been increasing expenditures throughout the company. Amazon is planning to reduce investments in the Kindle and Cloud initiatives next year. In order to remain competitive in the industry, Amazon should keep investing in new projects that generate more revenue to reflect the value of the company.

While Amazon's main interest is in long-term investments, such as video content and distribution centers, it is difficult to predict when the benefits from these investments will be realized. Amazon has stopped growing for a while and their margin has been constant for several years. The company needs a margin expansion in order to prevent the company's share price from dropping.

## **Future Outlook**

Overall, there are remarkable challenges for Amazon to yet overcome. If they are able to swiftly react they will be able to maintain their competitive advantages through harnessing their core competencies. Continued success in the emerging markets will ensure that Amazon has a bright and better tomorrow.