

Deep market penetration in china marketing essay



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INTRODUCTION

Strategic management is a field that deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments. (Nag R. et al, 2007) Keeping the vision and mission objectives of the organization under consideration the policies and plans are developed to achieve those objectives. It also involves the implementation of strategy and evaluation of performance over time. It starts with stakeholders' expectations and is an ongoing process; however the steps involved in strategic management are strategy formation which in turn involves internal and external analysis based upon which, the objectives are set. These objectives are to cater to long-term vision and mission of the organizations. Having set the strategies and objectives the next step is to evaluate it against key success criteria such as suitability, feasibility and acceptability. Final stage would be to successfully implement these strategies and review the results over a period of time to make changes as needed.

ABSTRACT

In this case we analyze how Amazon. com has been performing off late, using the basic analytical tools. The advantages and disadvantages Amazon. com has over their competitors, where they have been lagging, their financial performance and strategic approach. Critical analysis will be done on their business environment and strategic approach to highlight any possible shortfalls. Internal and external analysis will be undertaken to determine their marketing strategy, their response to global e-retailing

industry. Further strategic business objectives are to be laid down and critical analysis will be done on the grounds of suitability, feasibility, and adaptability of its implementation. An evaluation of strategic option; supported by a valid justification. Due to a limitation on the word count only summary of analysis is included in the main report and the main analysis can be found in the Appendix.

COMPANY PROFILE

Amazon. com based in Washington and found by Jeff Bezos in 1994 is global leader in e-commerce and it was the first company to introduce the concept of selling goods on the Internet. Initially Amazon. com started as an online bookstore and its success led Amazon to diversify into other products such as gifts, music, electronics, groceries, toys and many more. Probably today there is no product that Amazon. com doesn't sell. Amazon. com has developed different internet portal sites for different countries such as Canada, UK, Germany, France, China and Japan.

Amazon. com was named after world's largest river Amazon and was assigned with a logo of an arrow leading from A to Z to represent the customer satisfaction as the highest priority and fill their store houses with every product in the alphabet.

Amazon. com was open for trading under NASDAQ with a symbol AMZN for the first time on 15 may, 1997 by issuing initial public offering at a price of US \$ 18/share.

1. 3. MISSION & VISION STATEMENTS

Amazon. com vision:

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“ Our vision is to be earth’s most customer centric company; to build a place where people can come to find and discover anything they might want to buy online.” (Amazon. com, 2010)

Above statement reflects that amazon. com wants to be global leader in e-retailing business by providing the quality products at affordable price using latest technology to build the customer database and gain their loyalty towards the brand; thereby catering to the stakeholder’s interests and generating profits to the company. Expand themselves all over and build a virtual market place where customers can shop comfortably from at home.

ANALYSIS

2. 1. EXERNAL ANALYSIS

The external environment also referred to as the macro-environment, plays a very important role in the operations of any business. Key environmental factors such as political, economical, social, technological, legal, etc. affect the organisations at various levels. It has become the need of the hour to consider the potential impact of the external factors on the individual organisations. (Johnson et al, 2006).

2. 1. 1 PESTEL analysis

PESTEL analysis is conducted to determine current and future trends in political, economical, social, legal, environmental and technological environments, might influence the performance of business and what measures to be taken to avoid any shortfalls.

Key findings from PESTEL

PESTEL factors indicate attractive global market to be exploited by Amazon. com. Asian markets have reflected tremendous growth opportunities in recent past. Advancement and usage of internet for social networking has led to new opportunities to be exploited. Amazon. com should support environment friendly actions as increased importance is been given to environment these days, also to be a true global company Amazon. com has to incorporate single global strategy which involves legalities common to all of the globe.

2. 1. 2 Industry & competitor analysis (PORTER's Model)

Porter's Five Forces analysis is used to assess the attractiveness of different industries, and therefore, it can help in illustrating the sources of competition in a particular industry (Johnson et al, 2006).

Key findings from Porter's Five Forces

The competition in e-retailing industry is intense. There are number of small organizations adding frequently making the situation even worse.

The threat posed by small players and new entrants who can equally compete directly with Amazon. com is very low.

When consumers consider prices of goods they also consider brand image and if they are reliable.

2. 1. 3 Competitor analysis

B&N. com is the leading competitor to Amazon in lifestyle goods and books. However, Amazon has a diversified product range.

Wal-Mart. com has almost similar prices as compared to Amazon but they have better product range such as pharmacy, photo printing and etc.

Ebay. com also has a wider product range and better geographical reach but their concept is different to Amazon. com

More competitive threat posed by Tesco, Wal-Mart as they have physical stores and eBay has better geographical reach, but however Amazon. com has option to develop the strategic alliances as they did in Japan with Lawson to capture the market.

2. 2. INTERNAL ANALYSIS

Internal analysis can be conducted to determine relationship between the organization's available resources and its application to generate value proposition to the customer.

2. 2. 1 The Value Chain

The value chain analysis helps determining the effectiveness of actions that makes organizations standout from their competitors and take a lead; i. e. activities that are difficult to duplicate. Applying the framework laid by Amit and Zott (2001) analytical objective of

Value chain is attaining of ' transaction cost economies' & ' value creation'. Amazon. com focuses on reducing the costs in creating unique value to its customers.

Amazon. com has a very well organised value chain where they have best of infrastructures, skilled human resource, latest technology, procurement system, inbound and outbound logistics, marketing programs, after sales

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customer service and operations. These are supported by activities such as central management, decent pay rate to employees yet high skills, penetrating low tiered cities for HR skills, incorporation of latest technology such as open source Linux, setting up warehouse near to transport ways to reduce the distribution cost and thereby capital cost.

2. 2. 2 Financial analysis

In Q4 2009, Amazon reported 42%, \$9. 52b rise in sales as compared to worldwide sales of previous year which was \$24. 51b, a mere 28% rise under the economic pressure; they also benefitted from the investments into customer services in Q3; however rise in their revenues all over the world doesn't imply high profit margins. As compared to the consistent rise in sales, the profits have been fluctuating, however their margins are very low as compared to the turnover, reason being the economies of scale and competition.

(Source: GMID)

Amazon. com did see a drastic rise in number of active customers in latter half of 2009, in the final quarter the average revenue/ customer rise more than \$90, a mere 63% hike as compared to previous quarters. They have been adding value to its stakeholder year on year where EPS has risen to 2. 04 from 1. 49 previous year, however between 2005-2006 their EBIT dropped because they had high budget on marketing and investment in systems which allowed them to stay ahead of competitors.

Debt, Capital and gearing ratio indicates the ratio of debt to capital invested. 82% of the finance was from borrowing in 2005 which reduced to 68% in

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2006 and has further reduced dramatically. Debts lead to the interest payments decreasing the profit margin, however if the cost of debt is less than capital cost then one can opt for debt, but Amazon has been continuously reducing their debt cost year on year and is just \$109m in 2009. New projects has to be financed which emphasizes amazon. com to borrow, this can be justified by the data where interest cover has increased regularly concluding amazon. com ability to pay interest by 33. 1 times is profitable.

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(www. msnfinance. com)

2. 3 SUMMARY OF ANALYSIS

2. 3. 1 SWOT analysis

From a detailed Internal and external analysis we can conclude and summarize the Amazon. com strengths, weakness, threats and opportunities from the following summary of SWOT analysis.

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GENERATION OF OPTIONS

3. 1 TOWS Matrix

TOWS matrix (Johnson et al, 2006, p347) lay down a pathway to the generation of strategic options using SWOT matrix. Below shows an analysis from swot of amazon. com. Combination of strengths, weaknesses,

opportunities, and threats lead to generation of various strategic options as shown below.

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3. 2 ANSOFF Matrix

Ansoff's Product vs. Market Matrix (Ansoff 1988, cited in Johnson and Scholes 2006, p341) is used to analyze existing and new markets; and products in those markets which lead to strategic formulation for new product launches and development of new markets.

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3. 3 STRATEGIC OPTIONS

3. 3. 1 Option 1: Market Development – Enter Indian markets through merger or acquisition of a successful e-retailing company to cater to a growing market.

Suitability

PESTEL indicates consumer spending is increasing in India.

Internet trends suggest that India is fifth highest user of internet in the world.

Number of consumers shopping online is increasing with rise in broadband users.

E-retailing giants like Tesco, wal-mart are planning to enter Indian markets; hence being first mover will be an advantage.

Feasibility

SWOT analysis highlight Amazon. com's success in merger and acquisition in the past

Amazon. com gearing ratio indicates its ability to borrow the kind of money required to finance the acquisitions.

Acceptability

Number of internet users is expected to rise by 254% from 2006 to 2015 ensuring potential market of high returns.

Merger or acquisition will not reduce the risk of cultural conflicts.

3. 3. 2 Option 2: Service Development – Providing consumers with a 'greener' delivery option.

Consumers are provided with a choice of standard or 'greener' delivery option. 'Greener' option means the deliverables will be packed in biodegradable containers which are expected to be exchanged after the use for a green point with amazon. com which later can be redeemed for e-vouchers and can be spent on amazon. com. In the long-run this reduces the cost and wastage

Suitability

E-commerce industry deals with lot of packaging and delivery over the mail hence this is a major concern.

Amazon. com has been trying hard to create environmental awareness through various programs in the past, as a part of their CSR

Feasibility

Biodegradable packing leads to huge initial investments and research, if all the goods can be packed and transported to customers effectively. This can be executed by R&D department.

Amazon. com will need a perfect system in place to execute this option failing which will lead to failure of strategy.

Acceptability

Collection of used containers back from consumers is a challenging task and success rate would be very low, for customers might just not return the containers. It needs a robust system of compulsion in place.

Amazon. com can seek support from the governments to promote greener option as it is an environmental issue.

Finally greener option should create value to stakeholders, customers.

3. 3. 3 Option 3: Product Development - Amazon. com should add Contact lenses to its product range.

Suitability

Amazon. com competitors such as wal-mart, tesco do provide contact lens service; hence to have a competitive advantage amazon. com has to introduce it.

Market research suggests that in US the demand for contact lenses has grown by 67. 3 % since 2004 to reach a value of US\$24. 5b in 2010.

Research estimates an average of 64% of US population will need vision correction due to the nature of their work with computers. (Euromonitor, 2010).

Research shows the rise in contact lens users year on year in the countries where amazon. com has its operations.

(Source: Euromonitor)

Feasibility

Amazon. com as explained earlier has a very good history of acquisitions hence it is feasible to acquire or partnering with Visio Company will prove profitable.

Acceptability

Usage of contact lens today has become fashion to add to the vision correction.

High initial investments but in the long-run generates higher profits and returns too.

3. 3. 4 Option 4: Deep Market Penetration in China

Amazon. com entered the Chinese e-retailing market in 2004 after acquiring Joyo. com (China IT & Telecom Report, 2007). However, market data shows that Amazon. com has underperformed and has lost the market share to its competitors. (Dean, the Wall Street Journal, 2008). Following options would help addressing the underperformance and increase the market share.

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Suitability

According to PESTLE analysis china is to make a progressive economic growth and has high consumer spending.

According to global internet trends China is the highest internet user in the world

China is the most attractive market for Amazon. com if we consider the market penetrated to the market available to exploit.

Feasibility

Amazon. com has successfully demonstrated their resources in skills, experience and knowledge by setting up operations in UK, German and Japanese markets

At this point market penetration will be much cost effective than entering a new market

Amazon. com has been successful in executing merchant Program in the U. S.

Acceptability

Amazon. com investments in China should exploit the market potential to the core to evade any financial risks

Selling of local and specialised products by local merchants create value to the local consumers hence amazon. com should concentrate on merchant programme.

Chinese market is a blend of cultural aspects which leads to long term benefits to add value to stakeholders.

3. 3. 5 Option 5: Market Development - Using Social Networking sites for marketing campaigns.

Amazon. com could boost digital media sales by making a presence on Facebook. They have to create an Amazon. com application in co-ordination with Facebook. Application can be used to sell digital media such as music, eBooks, films and more; also it should allow users to create wishlist to be sent to friends. Facebook has a huge young population reach over internet. More than 500 million people using facebook across globe and it is only increasing day by day.

Suitability

According to PESTEL, this option will lead to the continued growth in social networking websites

Can gain access to huge customer base that Amazon. com can potentially target.

This option will lead to wider awareness and increase in sales of other products other than just digital media.

Feasibility

Amazon. com is already geared technologically to sell digital media online.

Facebook might not co-ordinate with Amazon. com to build a presence on the website.

Acceptability

This option will increase sales thereby adding value to customer base and stakeholders.

It leads to generation of quick and easy user interface for users to buy stuff online when they are socialising.

3. 3. 6 Option 6: Developing Scandinavian markets.

Denmark, Finland, Norway and Sweden collectively form Scandinavia and have a population of around 28 million.

Suitability

Amazon. com can cover its geographical reach through this option as they still lag in this area when compared to their competitors.

They have a well established inbound and outbound operational system.

Scandinavia embed in it excellent internet and technological infrastructures

Feasibility

Skane can be used as central distribution centre for all of Scandinavia as its geographical location aids providing excellent transport system, both by air and waterways; thereby reducing the costs.

Acceptability

Scandinavian countries are very price sensitive leaving Amazon. com alerts to tag their prices very carefully to gain competitive advantage.

Has high financial risk as they have to deal with four different countries and exchange rates and currency fluctuations.

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Scandinavian consumers are highly technically sound which leaves Amazon.com with a challenge to cater to their requirements in time and at best quality.

OPTION CHOICE AND EVALUATION CRITERIA

From the above, options are to be analysed and evaluated against set of parameters including its suitability, feasibility and acceptability helping us to decide as which option would succeed more than the other and has potential to generate revenue. Also it allows us to measure the strategic options against the abilities, key strengths and weakness of Amazon.com to execute these options.

4. 1 Evaluative Criteria 1

4. 2 Evaluative Criteria 2

CONCLUSION AND RECOMMENDATIONS

After rigorous environmental analyses from a strategic point of view the above six strategic options were formulated. Evaluative criteria identifies three strategic options which can prove profitable in the long-run and can be implemented to create value to the stakeholders; however only three options; Deep market penetration in china, adding of contact lenses to product line, Market development through social networking sites are viable at this point of time for Amazon.com.

China is the largest consumer market in the world with a potential to grow even bigger, statistics claim that 67% of urban Chinese households live on 25000 RMB or less, however this number is expected to drop to 10 % by 2025 which indicates spending trends to come in future. Amazon.com

should focus to penetrate more deeply into china now so that they can take advantage of this growth in years to come and gain competitive edge. Acting now amazon. com should strategise against Chinese market leader dangdang. com as their 3 year strategy which is to sell at lower prices even if they make losses is to end. Amazon. com in entering Chinese markets has already invested millions hence it is expected of Amazon. com to improve their operations here before investing heavily in other foreign markets leaving the options of India and Scandinavia back.

Latest letter from the CEO to shareholders claim that amazon. com will only invest in perspective ventures which yield significant returns in the long-run. It is recommended that the addition of contact lenses to their product line will give them a boost, as the market currently and forecasted is very huge. It can be concluded on the basis of market research that investing in the contact lenses will generate huge revenue and profit margins as they have become more of a style quotient than only vision correction.

Internet market trends suggest that business is marching towards e-commerce and networking. People will use internet networking sites very widely to get connected from one part of the world to the other. This can be used as a medium to promote the brand for Amazon. com. they should exclusively be felt presence of to every individual networker. Hence it is recommended that Amazon. com should conglomerate with leading networking sites such as facebook and twitter to expand and develop themselves.