Value chain analysis and balance scorecard

Business, Management

Among thousands of online retailers that popped up during the dot com boom, Amazon. com was by far one of the biggest success stories that is still relevant to this day. In 1995, Jeff Bezos read the statistics that the internet was growing at 2300% and founded Amazon. com, primarily as an online book seller. Authors Bolcher et al. (2013) point out an important aspect of value-chain analysis is that “ the firm should carefully study each step in its operations to determine how each step contributes to the firm’s profits and competitiveness” (p. 2).

Value-chain analysis played a critical role in the decision to register and locate Amazon. com business in Seattle because it provided large stock of technical talent and also largest book wholesalers at that time was in the same location which meant cost savings in terms of time and money. Author Chivakra (2007) points out that the “ basic logic behind value chain analysis is that organizations should adopt an external focus in understanding and analyzing costs arising from both intra-organization and inter-organization processes” (p.).

One external factor that contributes directly to Amazon’s pricing structure is the sales tax on its merchandize. Sales tax laws maintain that the online retailers must only charge the sales tax in the state that it has incorporated. So Jeff Bezos and his management team rightly chose one of the smallest states to incorporate their business in so that they could pass on the cost savings from sales tax to its consumers from other larger states and eventually employ a successful pricing model.

According to Bostan & Grosu (2011), a Balance Scorecard (BS) is a reliable method for the administrators and managers, employed in keeping a close watch on the reports in order to ascertain whether “ the operational activities are in line with the strategies” (p. 179). Ensuring operational activities stay the same course as the corporate strategy map is very important in today’s competitive business market where customer satisfaction and financial performance, two of four areas of critical success factors play major role in achieving sustainable growth in time.

Amazon. com entrusts enormous importance on non-financial perspectives of Balanced Scorecard: Customer Satisfaction, Internal processes, and Learning and growth (Shih-Jen & McKay, 2002). This has helped Amazon. com maintain a sustainable competitive advantage over its competitors and fueled its impeccable growth in terms of financial performance.