

Amazon – case study

[Business](#), [Company](#)



The level of competitive intensity according to Wheelen is determined by the threat of new entrants, the rivalry among existing firms, threat of substitute products or services, bargaining power of buyers, bargaining power of suppliers, relative power of other stakeholders. 4 " The collective strength of these factors", he contents, " determines the ultimate profit potential in the industry, where profit potential is measured in terms of long-run return on invested capital. " 5 The threat of new entrants to an industry brings new capacity, a wish to achieve market share, and considerable resources.

That is the reason why it is a threat to existing companies in a certain industry. To defend this threat there is only one thing, the existence of entry barriers. Entry barriers make it difficult for potential entrants to enter an industry like for instance economies of scale, product differentiations, required capital, switching costs, the access to distribution channels or the loyalty of consumers to a certain brand or company. The Rivalry among existing groups is associated to the existence of several factors.

These are for example the number of competitors, the rate of industry growth, product or service characteristics, the amount of fixed costs, the capacity, the height of exiting barriers and the diversity of rivals. The threat of substitute products is the possibility that a competitor invents or offers a product that appears to be different but actually satisfies the same need as a certain existing product. Buyers may have an effect to the industry through their aptitude that they are able to force down the prices.

That means that they may have a bargaining power for higher quality or more services in order to play competitors against each other. The power of

the buyers is determined by factors such as little changing costs to other suppliers, the purchase of a large amount of seller's products, the potential to integrate backwards or the plenty of alternative suppliers and so on. The bargaining power of the suppliers means that this group may have the ability to raise prices or reduce the quality of needed goods or services.

This bargaining power is high in case that the suppliers industry is dominated by few suppliers, that a needed product is unique with high switching costs, that substitute products are not readily available or that suppliers are able to integrate forwards. Amazon. com Inc. , was founded 1994 in Seattle, Washington by Jeff Bezos. Operating as an online book retailer, Amazon. com has grown rapidly since first opening its Web site in July 1995. At the beginning there were few online book sellers already in the business.

Because of the reason that many people at this time were not familiar with the world wide web and just focused on using e-mail the business model was that people could order books via e-mail. At this time Bezos wanted to gain an advantage by differentiating from competitors. The mission at this point, was to use the Internet to transform book buying into the fastest, easiest and most enjoyable shopping experience possible. Through that Amazon enjoyed a tremendous first-mover advantage, which continued until today.

Amazon. com, today offers the Earth's Biggest Selection. The company aspires to be the Earth's most customer-focused company, where customers can find and discover anything they might want to buy, and makes an effort to offer its customers the lowest possible prices. Amazon. com offers

thousands of products in categories such as books, music, DVD's, electronics, tools, kitchen, home and garden equipment, toys, apparel, accessories, health and personal care, etc. and operates on over two million square feet of warehouse space.

Industry Analysis of Amazon. com The main competitive factors in the e-business segment in which Amazon. com is operating include selection, price, availability, convenience, information, brand recognition, personalized services, accessibility, customer service, reliability, speed of fulfillment, ease of use etc. 3. 2. 1 The societal environment of Amazon. com Amazon. com as well as many respectively all other traditional companies are sensitive to the general environment like in the following aspects shown:

Economic environment: For instance since the United States has recovered from the impacts of the 9th September 2001 the ongoing economic growth stimulates the population's consumption. Another economic force is that the unemployment rate increases and the customer confidence levels decreases. Technological environment: Nowadays Internet software technologies on the one hand go further than theory and experiments and on the other hand focus on developing robust applications for large-scale.

As well, the costs for storage devices drop significantly and gigantic interactive dynamic databases are possible on both software and hardware level. Furthermore the technologies like for instance computer technology changes fast. Sociocultural environment: Personality and individuality are more emphasized and consumers are willing to spend more money on products that are individual or make them feel extraordinary.

Political-legal environment: There are different taxation laws in the countries Amazon operates for example. 3. 2. 2 The task environment of Amazon. com

The rivalry among existing firms in the business Amazon operates is high. Competitors of Amazon. com are physical book stores, wholesalers, publisher, mail order retailers and online book sellers. Book sellers such as Barnes ; Noble or Bol. com, online retailers for games respectively pc games, pc hardware, clothes and all the goods which are momentary offered at amazon. com like BestBuy, Wal-Mart, Costcoor Homedepot and online auctions like eBay or mail order houses like Bertelsmann. In the industry in which Amazon is operating the threat of new entrants is also high.

The reason for that is that the infrastructure is not as expensive as for a physical book store and already existing book stores which look forward to expand to the internet already have an established customer base, as well as brand and market recognition. The bargaining power of the buyers is high as well because there is a high number of options to purchase any given book. Another reason is that this industry is based on the fact that the customer is king. High is also the bargaining power of the suppliers because publishers usually serve several other physical stores and have an established customer base.

A further reason is that warehouse owners and wholesalers may service end-customers directly. The threat of potential substitutes is large because physical book stores already have an established brand name as well as clientele and some customers may not be as comfortable buying a book over the internet as visiting a physical book store. In addition, new technologies

and the expansion of existing technologies may increase the competitive pressures on online retailers. 3. 3 Organizational Analysis of Amazon. com.

The Business Model of Amazon. com Cf. Wheelen (2005), p. 10-4 The products Amazon. com offers include books, music, DVD's, electronics, tools, kitchen, home and garden equipment, toys, apparel, accessories, health and personal care, etc. Amazon wanted to get the most complete retailer possible like Bezos says in one of his statements: " We want to build up a place where people can come to find and discover anything they might want to buy online. You realize very quickly that you can't sell everything people want directly. So instead you need to do that in partnership with thousands and indeed millions of third party sellers in different ways. To try to do that alone, in strictly a traditional retail model, isn't practical. "

Amazon has beside the partnerships with other retailers and investments in some online retailers, offers like auction services and a store-hosting program for small- and medium sized businesses which is named zShop. In these shops businesses have a website to sell their products. Amazon gives the guarantee that the ordered product will really reach the customer. Both, the merchants as well as Amazon have a benefit. The merchants have an already established platform where they can offer their products to loyal customers and Amazon gets a wider product range.

A further service Amazon provides are the Web Services where they allow merchants to use Amazon's patented technology on their own website. First of all Amazon's structure is a network structure and the company acts like a coordinator of this value chain. The Company was one of the first

companies going online, started selling books and after some time went into related product fields like music and movies. Amazon always had the philosophy to differentiate from their competitors through the product line they continuously expanded and still expand as well as through superior customer service.

Additionally the company was constantly focused to offer the best price. To be able to expand the company was registered at the stock exchange and used 1999 the high stock price to fund purchases of other online retailers like Drugstore. com, Homergrocer. com and Pets. com. That was a great mistake because it took just one year till these online retailers went bankrupt. After that Amazon changed respectively restructured its strategy and started expanding through partnerships which gave them the possibility to enlarge their product lines without further costs.

Furthermore the invented selling technologies like the 1-Click ordering method was used by their partners and brought extra profits. Additionally the partnerships made it possible for Amazon to offer a greater product variety and as well Amazoni?? s products were offered on the partner website. Another strategic change took place in 2002 when Amazon decided to cut advertising cost by concentrating on print and internet advertisement and not anymore on television advertising. There through Amazon could offer permanently the best price because the company on the one hand didni??

t need to run shop and pay the necessary employees and on the other hand they focused on less expensive advertisement. 16 4 Conclusion I think it is

possible to use a Value-Chain analysis to find out the core ; distinctive competencies of a business which is operating in the e-business. The structure is particularly not comparable to the one of a traditional business. Marketing is in the same way value creating. A difference is that technology in the e-business has a much higher impact. E-business is based on technology. Also the Supply-Chain has changed.

The procurement is much easier because of for instance paperless processes or electronic bill payments and there through more efficient. So summarizing the internet is changing the value chain of companies which operate in an e-business. Companies are more focused on support activities because the great opportunities through technology for instance. According to the strategy, I think it is necessary to stay flexible because like the example of Amazon shows it is not possible to keep a competitive advantage without adapting changes.

Actually Amazon changed its strategy very often. The company followed trends like forming partnerships, more and more customization and technology as well as customers service developments and there through stayed competitive. The only point what Amazon never changed is the vision, to become a great marketplace for everything. A further reason why it is necessary to stay flexible is that the competition in this business is getting bigger and bigger because many traditional companies see their opportunities in the internet and tend to sell their products as well online.