

Amazon on the brink of bankruptcy essay sample

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



Amazon is a Fortune 500 American e-commerce company created by Jeff Bezos. CEO Jeff Bezos was an investment banker with no previous experience in the book publishing or retail industries. Amazon began in 1994 as an online bookstore, which gave it the advantage of having more titles than the traditional brick-and-mortar stores. From its book selling roots, Amazon has branched into clothing, gourmet food, watches, jewelry, baby products and apparel, beauty products, sporting goods, music CD's, DVD's, video tapes, home appliances and electronics and so much more. By September 1995, the company was selling over \$20, 000 per week out of Bezos's garage.

During this rapid growth period, Amazon. com focus on enhancing its product and service offerings and capabilities with increasingly sophisticated browsing and focused search capabilities, personalized store layout and recommendations, shopping carts, 1-click shopping (which was later patented), wish lists and greeting cards. By 1997, Amazon. com revenues for just the first quarter had increased to \$16 million, which was the same amount as the entire previous year. The company went public on May 15, 1997. Near Death

Like most internet businesses, Amazon. com had yet to achieve profitability. Despite the company's popularity, in January 2001, Bezos, was under tremendous pressure to generate profits. Bezos believed that the key challenge to the company in late 2000 was to achieve profitability by year-end 2001. Some analysts begun to question whether Amazon. com executives would be able to achieve profitability before money ran out.

While its books, music and video stores were breaking even, its toy, home

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and garden, electronics, and international stores continued to burn cash. The dot-com stock market crash exacerbated the company's problems and, by mid-2000, many of its online retail partners had declared bankruptcy.

Business Model Change

One of the biggest pros to Amazon's diversifications strategy is that they have created a one-stop shop that offers almost anything that a person is looking for and have been widely successful. It also sets the main page to show favorites based on prior purchases to gain loyal customer base from which they could try different marketing and selling strategies with.

The company used this customer base to expand and diversify based on their needs and wants. Amazon spent \$429 million to build a state of the art digital business infrastructure and operations that linked nine distribution centers and six customer service centers. Amazon.com executives soon learned that supply chain, inventory management, and order fulfillment processes were difficult to efficiently scale across diverse range of products.

But they believed that its digital business infrastructure was a proprietary asset that would provide sustainable advantages. Bezos and the senior team immediately began to explore ways to quickly leverage its capabilities, fill excess capacity, and deal with competitive threats from traditional retailers. In August 2000, Amazon.com announced that it would close down its online toy store and partner with Toys "R" Us. By doing this, Amazon.com would utilize its technology to host the Toys "R" Us online store, while also providing customer service, inventory management, fulfillment, and logistics services. Toys "R" Us would maintain control of product sourcing and

marketing. By adding this new “ Infrastructure Services” business model to its retail, marketplace, and auction models, Bezos believed that this new combination of business models would be the tipping point enabling exponential growth in returns. Recommendations

Amazon. com has several options to ensure their profitability. There’s two critical things Bezos has to do; increase sales and cut down expenses. They can reduce prices, adjust to more desirable shipping for larger orders, and downsize product selection. By revamping its distribution process they can ship more products without additional workers. This way fulfillment costs shrink. Amazon can also consolidate its shipping to save costs. If we look at the cyclical solution. Focus on cost reduction = lower price = more customers = less cost per unit sold= cost reductions. Amazon should focus on its core expertise, books, music and video sales, a niche that has delivered profitability to the company for many quarters already.

But that does not mean Amazon isn’t interested in selling toys, household goods or electronics. Just as Amazon forged its relationship with Toys “ R” Us, they can do the same with Target, and the likes. To implement these recommendations, Bezos won’t have to invest much time in forging new relationships since it’s a proven model, they have the fulfillment centers and the supply chain already set up. Amazon can handle all the online needs for their partners. By reducing prices and increasing sales, Amazon can reinvest profits back into the distribution process, this shouldn’t take most than a quarter to implement because technology is already there. Forward

Since Bezos 2000 fourth quarter report, Amazon did it. They made a profit. In late 2000, CEO Jeff Bezos promised he would deliver earnings by the fourth quarter of 2001. Amazon reported net profit of \$5 million with an operating profit of \$59 million. Overall sales hit \$1.1 billion, giving the company its first billion-dollar quarter. Amazon made the Internet model work on a large and significant level. They created efficiencies in their warehousing, fulfillment and shipping while focusing on a niche. The dot com crash blew away hundreds of business models. More people are online, more people are using high-speed connectivity, and more people are buying online. Even Internet ad sales grew through the downturn while offline ad depression is at an all-time low for print and broadcast media companies. This shows that emerging e-business models can work as long as opportunities in launching, growing and evolving the business over time can be identified and analyzed.