

Strategy process of amazon

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



By utilizing the SWOT analysis above and Porter's five forces (1985) from assignment 2 I can determine which of Porter's generic strategies will be best suited to helping Amazon be a successful organisation. By placing amazon.com on Porter's generic strategy model we can see that they adopt a 'Costleadership' strategy in the main, however they do combine this with elements of 'Differentiation' strategy.

Cost Leadership

Amazon primarily adopts a 'Cost Leadership' strategy, this is because they target a broad market and offer similar quality products at a lower price than many of their competitors. This type of strategy is often adopted in order to gain a high market share. In order to make this strategy successful Amazon need to manage their costs well and utilize their core competencies to keep costs at a minimum. One way in which they manage this is via economies of scale. Being a large global organisation they can buy large quantities of products direct from manufacturers at lower prices than most of their competitors, which in turn means they can sell products at lower prices.

Another way in which Amazon gain cost advantages is by improving process efficiency. Amazon is able to purchase products as and when they are ordered by customers. This allows low storage and handling costs, cutting lead time therefore allowing Amazon to collect payments from customers before payments to suppliers are due. Also the brand power of Amazon and the low cost of operating online, as appose to a physical store, allow Amazon reduce the cost of their products for customers. All these aspects allow Amazon to make the most of this strategy and maintain a competitive

advantage within the market. However maintaining this strategy requires a continuous search for cost reductions in all aspects of the business

Differentiation As I stated above Amazon do also use aspects of Porter's differentiation strategy to give them a competitive advantage. This strategy is aimed at offering benefits that are appreciated by the target market where the company are the leaders in service offering, quality or technology (Vranesevic et al, 2006). Amazon has added unique features or benefits within their 'online stores' to provide superior value for the customer so they see the products on Amazon's websites as unrivalled and unequalled, such benefits/services are also closely linked with brand loyalty. Features such as editorial and customer reviews, manufacturer product information and pages aimed at identifying individual preferences are examples of this differentiation. Also Amazon has a '1-Click' technology service with secure payment systems and digital content, as well the ability to view selected interior pages and citations (Amazon Annual Report, 2006).

Having said all this however there are usually additional costs associated with the differentiating product features, which somewhat contradicts their cost leadership strategy I covered above. For example it may require high costs into research and development. It is important therefore that Amazon manage these strategies in closely together in order for them to be successful.

1. 3) BCG Matrix The BCG matrix is used to evaluate the successes or opportunities for an organisation's SBUs. It positions the SBUs operations into two dimensions. The first is market growth, which Doyle (1994) referred to as 'a proxy variable for market attractiveness'. This is

because within high growth markets, high market share is more easily obtained. The second is market share. Doyle (1994) described this as 'a proxy for relative competitive strength'. This is because a higher market share often means a cost advantage.

Amazon as the umbrella company operate 9 individual national websites (SBUs), all offering product categories tailored to that nation. There are over 30 different product categories within this set of websites, however not all are available on each one. As a result it's difficult to place every SBU on the BCG matrix. Amazon.com is the only one to offer every product category. I will therefore for the purpose of this assignment place Amazon.com on the BCG matrix. In order to do this effectively I must consider the evidence:

1. Amazon is a leading e-commerce retailer and has been growing year upon year with sales increasing from \$3,993m in 2002 to \$10,711m in 2006 (Amazon Annual Report, 2006). This suggests that more consumers are using Amazon to purchase their products 2. In addition, net sales are predicted to grow between 21% and 28% in 2007 (Amazon Annual Report, 2006). 3. It goes on to say that the operating income is expected to be between \$355m and \$505m, or 30% growth, compared with 2006.

4. Amazon.com are also achieving a high market growth rate due to the increase in sales mentioned above as well the investment of funds in recent product line developments include apparel and accessories, beauty, grocery and baby ranges. 5. Other indicators of market growth is their investment in new technologies such as a new 'Amazon MP3' store, the "Look Inside the Book" facility enabling customer to search the entire contents of books

online, and a partnership with industry technology leaders Oracle and Internap, enabling them to gain expertise in database and web-delivery mechanisms.

From the evidence above it would suggest that Amazon. com currently has a high market share and is also has high market growth. They are market leaders and have had a steady increase in sales over a four year period with very good levels of profitability; they are also making sure they are operating in growing markets by developing their product range. As a result Amazon. com would fall in the 'STAR' quadrant of the BCG matrix. To maintain this position heavy investment will be required to ensure they are continually exploiting market growth. However once the market has saturated this SBU should become Amazon's cash cow.

1. 4) Product Life Cycle

The product life cycle is used to determine the current market position of the organisation and how its different components adapt and evolve to suit its current position. There are four stages to the product life cycle, introduction, growth, maturity and decline. The introductory period reflects the difficulty in introducing a new product. Rapid growth then occurs as many new investors are attracted leading to saturation of the product, whilst decline may occur as new substitute products appear (Doyle, 1994).

Amazon entered the market in 1994 and was a pioneer in e-commerce. As a new company in a very new market growth was initially slow. As use of the internet increased and technology improved the growth of the company

picked up as it was able to expand its product and service offerings and is now at the growth stage of its life cycle.

Other evidence to support this is its expansion into new countries and markets. It has now expanded into six countries (UK, France, Germany, Canada, Japan, and China). These expansions have rapidly increased the company's growth. However there are many more areas for potential growth in Europe, Australia, and South America. There is also room to diversify their product range further and as a result increase in the number of customers by attracting new markets. If Amazon were to continue this growth and move towards maturity they make look to expand their product range further and continually search out new markets in order to postpone the decline stage of the product life cycle.

1. 5) ADL Matrix The ADL (Arthur D. Little) matrix helps to identify an organisation's business strengths and the life cycle stage of the industry in which it operates. Combining these two dimensions on the matrix helps to identify the strategy that an organisation should be using.

To place Amazon on the matrix I will have to consider both dimensions of the matrix and the evidence available to me. Amazon.com has expanded rapidly over the last six years, highlighted by its move into international markets (UK and Japan), the diversification of its product range (grocery and baby) and the introduction of new service technologies ('look inside the book'). These have all been encapsulated by the company's increase in sales from \$3,993m to \$10,711m over the last four years (Amazon Annual Report 2006).

All this evidence suggests that Amazon. com is in a strong competitive position and in the growth stage of industry maturity. The markets they operate in are continuing to strengthen, sales are increasing and few direct competitors exist. They have also reaped the rewards diversifying into new markets and products. Their Market share is strong and stable, and is likely to remain like that regardless of what their competitors try to do. Within this section of the matrix that Amazon fall into (highlighted above) it suggests that Amazon. com adopt a cost leadership strategy, which as I established via porter's generic strategy they have done. It also recommends developing a differentiation strategy which again I showed via Porter's five forces they have done.

In order for Amazon. com to become a dominant force within their industry they need to make an aggressive push for market share, which could be argued is the case currently, because of their investments to increase their growth and position. They also need to look for ways to improve their competitive advantage. Currently Amazon's main competitive threats come from companies that specialise in their highest product seller's (e. g. books, music, DVDs) because they account for 65% of the companies sales (taken from a report overview form hoovers. com).