Amazon’ european distribution strategy essay sample

Business, Company

Amazon was established in 1995 by a certain Jeff Bezos. The company was established with an objective of using internet to transform book buying into a faster, easier and better shopping experience. It started with a selection of 1 million titles to finally claim the title of the earth’s biggest book store. The strategy used by Amazon was to maintain modest amount of inventory and highly rely on the wholesalers for source of vast selection. Amazon placed an order with its wholesalers as soon as it got orders from customers eventually to set up direct accounts with the publishers. The growth of the company in a couple of days made the company management to set up a 285000 square feet DC in Seattle and second one soon after in Delaware to serve the east coast. This reduced the order to mailbox time needed. In 1998 the company expanded its business to music stores and video, DVD stores. With such an expansion and high growth rate achieved by Amazon the company took help from the external agencies like I2 technologies supply chain software package.

Using this software and also with further narrowed search based on labor, employment and tax levels Amazon started to expand. Amazon set up its DC in Nevada, Kansas, Campbellsville, Kentucky and Georgia. With such a huge build up Amazon started to sell everything from the books to kitchen appliances. All of its distribution centers held all kinds of product Amazon used all kinds of modern RFID and computer software techniques to line up its pickups. It assigned a certain Amazon Standard Identification Number to check on the pick list. It also used bench marking and performance measurement technique to its best possible way to achieve new goals and targets.

The then VP of operations Jeff Wilke then worked on six sigma and Total quality management to streamline the US distribution centers. The management stared to refine the software used for forecasting for reducing risk of over buying, establishing buying rules to allocate volumes among wholesalers, Integrating suppliers management system, implementing a set of cascading buying rules to get best price and delivery option. Besides this the management also proposed the idea of direct shipping to clients from the supplier. It also used various techniques like the postal injection and zone skipping to decrease the cost of transportation. Amazon’s Strategy for European Market:

In 1998 Amazon also entered the European market in two countries UK and Germany. It acquired the local leading online book retailer to enter into the market with firm footsteps. It also started its music sales in the new markets of Europe in the year 1999. It used the system followed similar to that in the US of maintaining relations with the production houses to become the leading online bookstore with combined sales value of $167. 7 million. This accounted to 10% total Amazons revenue. Following the success in UK and Germany Amazon entered France in 2000. Here it built the whole system from scratch rather than acquiring a system. The newly started Amazon in the international segment was worth $381 million in sales and accounted for 13. 8% of the company’s revenue. International sales grew at a rate of 74%. The new challenge for Amazon was the cultural differences in the various countries involved. Amazon recognized the European market as aggregate of regional markets.

First step to achieving the global market was maintaining a dedicated website for each of its three markets, which also included the setting up dedicated call centers. The second step taken was addressing the regulation in each of the county. In Germany and France the book prices were fixed while in France it could not be sold for a lesser than invoice cost. Bringing in features like free shipping Amazon tried to counter these regulations. The third was the payment option which was specific like cards, checks and post orders in UK, France and Germany respectively, which was solved effectively by the management. The different procurement policy in the different countries did not allow the management to follow the system followed in the US when it came to the European market. In the problems faced by the company was that of the information exchange, Owing to the low level of use of EDI in the European markets the management had a tough time finding the fulfillment of the order unless it was done physically. Transportation was also a difficult task among the local transport agencies to ship across the three regions owing to the lack of coordination among the local carriers used and also the higher cost if the 3 pl was used.

To solve this company opened up a subsidiary in each of its three European countries to manage all the issues on a country based level. In 2001, the company decided to merge all its operation in the three countries under a single umbrella to embark on major cost cutting and restructuring efforts to reach profitability. In 2002 the international segment of the company was the fastest growing with revenues crossing $1. 2 billion. The company was looking on a long term perspective in the European market and thereby worked on the European Distribution Network. It was basically combining all the distribution centers in the Europe. It put forth a lot of question on the operations head for Amazon Tom Taylor. European Distribution Network: Implementation Strategy & its Benefits: For us to make a business case for a European Distribution Network, we must first assess the benefits to the customer and to the company. The strategy of consolidation of the European Network provide many benefits to both the customer and the company, such as improved distribution and reduced costs, by providing the company will bulk discounts, reduced transportation costs, and reduced inventory holding costs.

By having an EDN with strategically placed warehouses, Amazon UK can significantly expand their product selection and improve shipping rates due to warehouses being located relative to dense customer areas and other distribution centers. This provides Amazon with the ability to reduce inventory costs and risks by utilizing the stock provided by other distribution centers and holding decreased inventory levels. This also reduces the transportation costs due to the proximity to the customer and suppliers. An EDN would also facilitate global sources from the lowest cost vendors allowing for inventory control on a global scale. This will also reduce the risk of relying on single distribution centers serving large customer populations. With a more globalized system, Amazon UK can better understand market trends and customer demand on a large scale, which provides the ability to purchase bulk product for a larger customer base and allowing for discounts from vendors as well as vendor leveraging for pricing. An EDN provides improved customer experience through variable options chosen by the customer and also allows for further expansion in the future. The customer can decide the distribution center from which their product is shipped and improves shipping capabilities from vendors.

With variable decisions and increased product availability, the customers experience in dramatically improved and further allows for customer development and retention. With this system in place, the detection of trends inside the consolidated volume of customers would be more difficult but Amazon will be able to see more global trends that will affect a higher quantity of customers as well as provide Amazon with better discounts from their suppliers due to increase product volume. After the consideration of these benefits for both the customer and Amazon UK itself, we believe that the company is making the correct decision and will greatly increase their overall experience as well as reduce costs in a win-win situation. Implementation of EDN:

The utilization of IT resource located in US for formulating the data and implementation strategy needs to be justified on the basis of Rate of Return. There is a clear indication in fig. 7-4. c that online retail market for books is growing in Germany. This should help us interpolate the data to for book sales across the Europe. Germany being most populated country in Europe could serve as the reference for interpolation of data for various other European countries. Also fig7-4. a gives the overall trend for online purchase among different countries. These two figures give us the idea that the mindset towards online purchasing is increasing in Europe. European market gives strong sense of growth in online purchasing. Therefore, a network to serve the European market needs to be established and definitely this makes sense. To implement EDN, Amazon should work on integration of data for the three European sites. The integrated sales data from all the three DC's in Europe will help to determine the trend of sales according to different regions.

This will help to formulate the inventory pooling strategy among three DC's, and will help to formulate the product mix to be maintained at each DC. The transportation cost of shipment can be reduced significantly and the service level to customers can be increased to a great extent. Steps to implement this type of Integrated Strategy can be enumerated as of follows: Integrate sales data of products for various countries in Europe. Analyze the transportation cost in various countries with respect to their distances from DCs. Formulate an inventory pooling strategy among the DCs, based on transportation cost and the demand of the region. Inventory ownership should belong to the DC that has transshipped the product. DC's should articulate some contracts with local transportation agency to ship its product to the customers. Also, at this point the ownership of the product must be with the DC. Taylor should consider this strategy for its implementation of European Distribution Network, as it provides reach to the different pool of customers from various countries. This strategy also keeps the new emerging markets within the vicinity of expansion.