

# The amazon marketing success



Internet commerce has grown in the past years, and with over 500 million websites actively providing a service or product, the competition among rival businesses is intense. However, there are a few companies, like Amazon, that have had tremendous market growth and success over the Internet. So much that, not only is Amazon one of the largest book and retail stores in America, it is also one of the largest websites in the world, consistently placing within the top 20 of Alexa's internet rankings. The company has at this point reached millions of customers in over 150 nations. The website offers millions of DVDs, music discs, books, and videos as their staples, and has slowly added a myriad of supplemental products as well. Expanded offerings include household goods, electronics, apparel, cosmetics, drugs and more. Amazon has maintained competitive advantage through years of product expansion, employing and utilizing innovative strategies along the way in a continuous effort to outgrow competitors like eBay and Overstock.com, and stay ahead in the market of online shopping.

The model concept of online shopping was adopted by Jeff Bezos, founder of Amazon in July 1995, and operated rather seamlessly with a small workforce from the start. Amazon as an Internet commerce entity has popularized the context of online shopping by having the largest sheer quantity of products, and ultimately creating success through their innovative use of the supply chain model. Their innovative business strategy and use of the supply chain, placed products in numerous self-owned warehouses, as well as, distributing products through partnering suppliers, which significantly reduced the need to stockpile products in one central location, and Amazon's managing responsibilities (Bradley, 1999). Although the company was not started

expecting a guaranteed profit, their innovated uses of the supply chain model integrated with the Internet, gave Amazon a vast reduction in overhead costs which is a key factor in their overall success.

### **Limitation of Study**

This paper began with a brief synopsis of Amazon's measured success. It will continue with research carried out with a considerable amount of effort and consideration, in the collecting of text books, Business Journal resources, browsing the Amazon website, and other online resources regarding Amazon's marketing success. However, the research should not be considered all-inclusive because the study has some limitations due to some unknown factors and matters of opinions. This paper is not based on field research and relies strictly on secondary sources, which limit the range of data to some extent. Therefore, this is a limitation of the study in question. Additionally, the paper must be type written in an APA format, a minimum of 12 pages long with a maximum length of 15 pages, excluding the title page, and reference page.

### **Definitions of Terms**

DVD is an abbreviated term for a digital video formatted disk that has high storage capacity.

(Competitive advantage) A superiority gained by an organization when it can provide the same value as its competitors but at a lower price, or can charge higher prices by providing greater value through differentiation. Competitive advantage results from matching core competencies to the opportunities (businessdictionary, 2012).

(Marketing strategy) An organization's strategy that combines all of its marketing goals into one comprehensive plan. A good marketing strategy should be drawn from market research and focus on the right product mix in order to achieve the maximum profit potential and sustain the business. The marketing strategy is the foundation of a marketing plan (businessdictionary, 2012).

(Distribution Channel) The path through which goods and services travel from the vendor to the consumer or payments for those products travel from the consumer to the vendor. A distribution channel can be as short as a direct transaction from the vendor to the consumer, or may include several interconnected intermediaries along the way such as wholesalers, distributors, agents and retailers. Each intermediary receives the item at one pricing point and moves it to the next higher pricing point until it reaches the final buyer. Coffee does not reach the consumer before first going through a channel involving the farmer, exporter, importer, distributor and the retailer. Also called the channel of distribution.

(Marketing mix) A planned mix of the controllable elements of a product's marketing commonly termed as 4Ps: product, price, place, and promotion. These four elements are adjusted until the right combination is found that serves the needs of the product's customers, while generating optimum income. Sometimes the first P (Product) is substituted by presentation. See also marketing and mega marketing (businessdictionary, 2012).

(Boston Consulting Group Portfolio Analysis) Business portfolio analysis technique used by large firms with decentralized profit centers called

Strategic Business Units (SBU). The firm locates the position of each SBU on a four cell (quadrant) table formed by making a cross with four equal sides, each cell having a specific name and description based on its market share and type of market: (1) The lower left cell (labeled 'cash cows') contains SBUs that generate more cash than they consume because of their dominant shares of slow-growth markets. (2) The lower right cell (labeled 'stars') contains SBUs that may not generate a cash surplus but are likely to become cash cows because of their high shares of high-growth markets. (3) The upper right cell (labeled 'question marks') contains SBUs that consume large amounts of cash to remain viable because of their low shares of high-growth markets. (4) The upper left cell (labeled 'dogs') contains SBUs that may generate enough cash to keep on existing, but hold no promise of ever becoming winners because of their low shares of low-growth markets. Developed in 1970s by the consulting firm Boston Consulting Group (BCG), the purpose of this analysis is to identify which SBUs to invest into, which to sell off, and which to shut down. Called also growth share matrix (businessdictionary, 2012).

(SWOT Analysis) Situation analysis in which internal strengths and weaknesses of an organization, and external opportunities and threats faced by it are closely examined to chart a strategy. SWOT stands for strengths, weaknesses, opportunities, and threats. See also PEST analysis.

(Five Forces Analysis) A model introduced in 1979 by Michael Porter and used by companies for industry analysis and corporate strategy development. The five forces include competition, supplier strength,

customer power, the potential for new companies joining the industry, and the threat of substitute products (businessdictionary, 2012).

## **Review of literature**

### **Amazon: In the Beginning**

The internet was new and uncharted water at the time Amazon was launched, and many pragmatic and logical business minds were opposed to the idea of launching a business online, and warned Amazon's owners against it.

The founder of Amazon, Bezos, knew that any business starts slowly, and in order to make that company successful, the organization needs to be prepared and determined to get through it. In effect, Bezos started the company without the assurance of being profitable. However, Bezos' company saw its first profit at the end of 2002. From the point that the company turned its first profit, the company has been able to sustain its competitiveness in the online market.

### **Amazon: Success in Internet Commerce**

The success of Amazon Corporation is revealed in its profits. The environment and accomplishments of the Amazon Corporation according to a classic model of standardized marketing combined with the innovative networking and selling platform facilitated by the online environment demonstrates an approach that Amazon.com has developed to position itself as a leading online retailer, offering its range of products that includes books, apparel, electronics products and home improvement products

through the online website, [www. amazon. com](http://www.amazon.com). Amazon's reach is increasingly global, as Amazon operates in North America, Europe and Asia.

The profits and growth represent specific indicators of the strengths of this company. The growth and proportional profit to growth cannot be overlooked or underestimated. The headquarters in Seattle, Washington employs 33, 700 people, including full-time as well as part-time employees. Amazon reports its revenues earned for 2010 at \$34, 204 million during the financial year ended December 2010 (FY2010), an increase of 39. 6% over FY2009. The operating profit of Amazon was \$1, 406 million in FY2010, an increase of 24. 5% over FY2009. This is a company that is growing. The financial benefit is the net profit that shows at \$1, 152 million in 2010, an increase of 27. 7% over FY2009 (Amazon. com Inc, 2012).

As far as potential weaknesses competitiveness is not one of them. There is perhaps no other store like Amazon. In the stock market, Amazon (AMZN) has had much success in overcoming the usual constraints of the retail market by offering goods and services online at affordable prices (Woodburn, 2012). The selling platform mechanism has been enhanced by developing unique products of their own, like the Kindle e-reader and Kindle Fire market, which have made them competitive with electronics stores. This new market entry, combined with Amazon's Strategic Intent business model, brought about by Amazon resulted in what research claims is putting competitor Best Buy in the position to " develop very little margin on the products that they sell in competition with Amazon. com Inc" (Woodburn, 2012). This is due directly to the fact that Amazon does not seek to make profits on its electronics, as Amazon makes sufficient profits from their selling platform. In <https://assignbuster.com/the-amazon-marketing-success/>

fact, Amazon sells the Kindle at company cost while profits are made on digital goods purchased for those products such as e-books, videos and music. What we see here is a powerful window for concerted name recognition of Amazon through Kindle at no cost to Amazon the company. The Kindle devices merely serve to encourage use of the Amazon technology, effectively securing brand recognition, while Amazon makes its profits from the complementary products utilized with or through Kindle, so that Best Buy cannot mark up their similar electronic goods for any profit or their prices will cease to be competitive. To this, CEO Bezos says, “ We want to make money when people use our devices, not when people buy our devices” (Woodburn, 2012).

The mission gives one a good sense of the opportunity that Amazon sees, in seeking to “ offer the Earth’s Biggest Selection and to be the Earth’s most customer-centric company, where customers can find and discover anything they may want to buy online” (History, 2012).

The real key to Amazon’s ongoing strength comes from the deals forged back in the early days of the internet, the third party agreement format by which the “ Earth’s Biggest Selection” of books, CDs, videos, DVDs, electronics, toys, tools, home furnishings and house wares, apparel, and kitchen gadgets was made available through Amazon, selling products from prominent retailers such as well-known retailers including Toysrus. com Inc., Target Corporation, Circuit City Stores Inc., the Borders Group, Waterstones, Expedia Inc., Hotwire, National Leisure Group Inc., and Virgin Wines. By having these other companies selling their items through Amazon, even at a discounted rate, the Amazon name remains all over every transaction. This is <https://assignbuster.com/the-amazon-marketing-success/>



the same operating principle by which they sell the Kindles at no profit, so that the name will be all over the machines, and the Kindle will maintain a competitive edge in its digital sector, via a marketing principle at Amazon which has remained a fundamental component of its success through techniques and operating principles that stayed with the company as a cultural cornerstone since the initial achievement of its first net profit during the fourth quarter of 2001 (History, 2012).

Understanding the personal vision of Bezos is important in understanding the opportunity and weighing the viability of Amazon in the online environment. For Bezos, the corporate vision that built Amazon. com was forged on his initial brainstorm. After reading a report that projected annual Web growth at 2, 300 percent, Bezos drew up his own list of 20 products that could be sold on the Internet (History, 2012); then he pared down the list to his estimate of the five most promising: compact discs, computer hardware, computer software, videos, and books (History, 2012). The strategic thinking and decisions of Bezos at this point stands out, because he had identified for himself what was the most active products and measures used online, and also relying on his own judgment to gauge test products accordingly. The global popularity for literature indicated books were of highest demand, meaning three appealing characteristics to Bezos: a large worldwide market for literature, the low price that could be offered for books, and the tremendous selection of titles that were available in print (History, 2012), with Seattle being chosen as his headquarters due to the large high-tech work force and its proximity to a large book distribution center in Oregon:

“ Bezos then worked to raise funds for the company while also working with software developers to build the company’s web site. The web site debuted in July 1995 and quickly became the number one book-related site on the Web (History, 2012).”

The rest is history, or at least relegated to the sources for now (History, 2012).

The notion of focusing just on the means of selling, as opposed to the place or price, was an early core component of the Amazon operating culture and business model, as evinced through the establishment of a pattern of sales that emphasized Amazon the selling vehicle as opposed to Amazon the original product, using the Amazon presence and vehicle and system to sell to and for others, while not keeping large amounts of stock under one’s own care or responsibility. Unlike its competitors in the book market, Barnes and Nobles and Borders, Amazon did not bother keeping much stock in their own warehouses. Instead, the stock that they sold was orders which they manually processed, but that the customer was actually placing with other wholesalers and publishers, eliminating the need for Amazon to maintain a warehouse with their own products.

Amazon did keep some stock, about 2, 000 titles in its Seattle warehouse. When an order came in, working out of his garage Bezos would order the books from the other sources, then ship them to the customer. By initiating this activity with the advent of the full-scale use of the internet, the idea and the company caught fire in the unique time in which such a small venture could realize such a broad scope so quickly; within a month of launching the

web publisher, Bezos and Amazon. com had filled orders from all 50 states and 45 other countries (History, 2012). All because the price was low, which Amazon could keep low because they had no overhead costs, and would pass the savings along to the customer. This fulfilled a greater purpose for Bezos and Amazon, because while all this buying activity took place in the pursuit of better deals on high demand products, the Amazon name was put on the minds of all those excited buyers who were now buying products without the middlemen and retailer price hikes, and directly and rapidly getting their preferred titles. So through low overhead and emphasis on name recognition as opposed to profits, Amazon was able to apply classic principles to the context of the environment Bezos was working in, to grow the company name to the point where the Amazon name was its most potent and formidable strength.

## **Discussion**

### **Boston Consulting**

As far as a Boston Consulting Group Portfolio Analysis approach is concerned, the cash cow in the case of Amazon is the design of the selling vehicle: a fully open arena for selling. Online commerce while growing rapidly is growing slowly in relation to Amazon, because Amazon has created an environment where even vendors can sell in the Amazon environment, and the consumer or individual seller are de-prioritized in favor of amicable relations between manufacturers and Amazon, even though we like to think of the market as open to every individual, or a new frontier here.

The only question remaining is whether exertion of too much control over the market changes one's advantage for the worse? Or at what point? The <https://assignbuster.com/the-amazon-marketing-success/>

question might be when will Amazon's boom cycle out (Armstrong, 2012)? In the age of the internet, the cycle down is undetermined and has yet to be seen, as the internet is relatively new, and we have to continually evolve and function at higher levels of understanding and awareness to enable our corporations to adapt and mature. The market will not mature or progress uninterrupted. The sheer bulk amount of items out there being sold and the many retail store outlet not online are the two market forces that ensure Amazon's sustained existence and competitiveness, and should motivate Amazon to continue to adapt and update its services. The product cycle for Amazon would appear to be unlimited, where the niche that Amazon created will continue to grow without cycling down unless the economy collapses completely, an ongoing risk of doing business in this day and age. However, until now, all indicators point to a status quo where while the global economy staggers along in real time, the internet economy is still vibrant. The cash cow in this case is not the competitive nature of the product, but the automation and adaptation of the vending model to the online environment, where conveniences such as not having to go into stores or pick up the telephone save customers more time and money and only adds value to the convenience that Amazon offers in its vending model that represents the cash cow.

## **SWOT**

### Strengths

As far as SWOT analysis is concerned, we have established that Amazon is already a profitable operation going forward. Amazon profits have been

steady and consistent in their rise since 2005, after years of substantial losses (David, 2008).

The company also has an amazing set of HR techniques, Customer Relationship Management (CRM) and Information Technology (IT). Using comprehensive data models, Amazon records data on customer-buyer behavior, reflecting on their lifestyle and future needs from Amazon, a company that can adapt its distribution as it sees fit. This makes customer service more effective, where the glut of unused overhead Amazon has access to even makes bonuses of gifts and makeup gifts simple options for pleasing the customer that retail outlets cannot offer.

### Weaknesses

The name recognition of Amazon is a primary reason for its powerful position, and this diversification of product lines would be the only direction for expansion, and is already the basis for the reason why Amazon is a huge global brand. It is recognizable for two main reasons. It was one of the original dotcoms, and over the last decade it has developed a customer base of around 30 million people (David, 2008). Early on Amazon harnessed technologies for gaining a niche in e-commerce, and becoming a one stop online wholesale retailer. The books that Bezos based Amazon on as a startup now have fully diversified into product categories. As far as cost management goes, the company may at some point need to reconsider its strategy of offering free shipping to customers. It is a fair strategy since one could visit a more local retailer, and pay no costs. However, it is rumored

that shipping costs could be up to \$500m, and such a high figure would undoubtedly erode profits (David, 2008).

### Opportunities

There are still opportunities for expansion, comprising the main opportunity for Amazon. However, growth has to be targeted and well-managed, as appropriate to the times in terms of anticipating the specific demands of consumers in the global age, and the rapid shift in cognitive development of human beings as a result of interaction with the computer. At this point, unique opportunities for Amazon include the knowledge and expertise that Amazon displayed in achieving their online status. Unique ventures are taking place between Amazon and other major store group retailers that are exemplified by the unique nature of the deals being forged. For instance, British retailer Marks and Spencer has announced that they are discussing an exclusive online user agreement with Amazon to sell its products and service online. This is the latest in a wave of unique agreements forged by Amazon, in addition to other recent agreements with Target, Toys-R-Us and the NBA (David, 2008). Further, Amazon has expanded its offices for a new European headquarters. Amazon's new Luxembourg-based division aims to provide tailored services to retailers as a technology service provider in Europe, in an adaptive service process funneled by Amazon, which has shown perhaps the most efficient adaptive powers in the history of business.

In addition to these private sector agreements, research points out that Amazon may be able to build collaborations with the public sector as well. This is based on previous moves by Amazon, such as the deal with the British

Library, London, in 2004 enabling customers to search for rare or antique books, that formerly would have been available only in the stacks, where books and information of old or sensitive or rare composition are specifically housed for protection. The deal with the British Library is that the library's catalogue of published works is now on the Amazon website, meaning the British Library in London has now published its database to provide to the public via Amazon details regarding the more than 2. 5m books on the site (David, 2008).

More global expansion opportunities are visible in the 2004 move by Amazon into the Chinese market, at which point Amazon bought China's biggest online retailer, Joyo. com, for approximately \$75m (£40m) (David, 2008). The venture was relatively seamless and particularly appropriate due to the fact that Joyo. com, like Amazon, retails books, movies, toys, and music at discounted prices. It is safe to say that in horizontal expansion, Amazon is best equipped to address expansion opportunities through buying prominent discount retailers in each country who have similar business models to Amazon's own. Buying these outlets is a way to expand to a clientele that is already familiarized with and interested in a common portal for buying all consumer products via what amounts to Amazon's one stop shop approach.

### Threats

Threats to Amazon would just be competition, with investment worldwide being made in similar models to Amazon's to try and harness the untapped potential of overstock and unused stock of retail company needs. Research says that a proliferation of one stop outlets would dilute Amazon's distinct

brand; while this is true, it would be hard to dilute the dominance of the Amazon name; the large global customer base that has retained is inclined to type out the Amazon URL in search of deals or items of significant or uncommon interest that they may not be able to find on their home soil in local retail shops. It would take fairly massive projects by competitors in the form of joint ventures, strategic alliances and mergers to seriously challenge Amazon at all (David, 2008). So the potential for threat is there, but the actual likelihood far-fetched for the time being.

## **Five Force**

As far as five force analysis, the rivalry among competitive firms barely exists, because there is no organization close to challenging Amazon, in volume or name recognition. Amazon's specific brand is books, where people will continue to come to search, even while Amazon branches out into other areas or product categories. Typical competitors maybe seen as eBay, which is actually not really a retailer, nor does it, have corporate vending agreements with retail outlets. A comparison of Amazon to E-bay brings out the true competitive strengths of Amazon, where Amazon retains a core selling presence, and eBay has no price setting, merely selling on a voluntary basis to the highest offer or highest bidder. Amazon has no auction function.

As far as the second force of potential entry of new competitors, we have just discussed the large scale merger type projects which would be necessary to even challenge Amazon or make Amazon take heed or notice. The competition could intensify, but Amazon can react and adapt with quite a head start between them and any competition of their current or potential



closest pursuer. Simply put, Amazon has a superior market position and such dominant branding that the potential entry of new competitors is not going to challenge the existence or competitive position of Amazon in any way, not for a long time.

As far as the potential development of substitute products, this is hardly applicable because Amazon has so many product categories, yet the fundamental service it offers is the template of selling for retail outlets, a concept which is self-evident but the ability to effectively implement remains the challenge of any competitor thereof. Amazon's brand is its product at this point, and anyone trying to compete with Amazon is introducing an "Amazon style" business approach to the online environment. Any variations in that model or upgrades would be conceptually and publicly seen as innovations to the prevailing online vending model that Amazon has perfected and cornered up until now.

The bargaining power of suppliers is also not a conflict, because the suppliers' willingness to extend to Amazon merchandise to sell, and Amazon's willingness to keep their own share low, ensures that while Amazon pursues name recognition instead of sales percentages. The suppliers will remain happy with the model. Amazon has such a cooperative relationship with its suppliers, where supplier are benefiting tremendously from the Amazon platform, which represents a platform for overstocked merchandise that would otherwise remain unsold, that there is no bargaining taking place between Amazon and suppliers. It's all profit, and supply relationships are covered under cooperative vending agreements with large retailers.

The bargaining power of consumers remains significant because Amazon must continue to provide convenience as well as attractive pricing for consumers who are fully conditioned to the Amazon experience. The fact is that the satisfactory interaction between Amazon and the public is likely to continue, because Amazon remains the preferred choice for selling off retail outlets overstock, and the public that they are most likely to have influence over knows that Amazon can and should be able to keep prices low. Amazon is an online environment but they are not eBay. Their emphasis is not on second hand deals, but retail sales straight from the factory. The prices on the products governed under agreements with retailers are still retail prices, and the products are still brand new and unused, with the level of quality that user/customers can rely on in lieu of the inconvenience of going into retail outlets physically.

## **Conclusion**

Amazon has in place a solid foundation for its existence. It does need to adapt a component of business inevitably gravitating to a more global scale, where Amazon will not just be finding outlets in the US to sell for, but globalizing operations so that in every country Amazon will need to seek out either an online company that best matches Amazon's services prevailing in their country of expansion, or find the bulk suppliers who could best use their services. Amazon has nothing left to do in development but expand globally, and to do so would represent the most effective form of expansion that that effectively integrates both the business climate and cultural awareness of each country that it expands into. Global markets present diversity and cultural awareness, the two main components that Amazon may want to

develop and adapt into its own organization which is heavily rooted in virtual environments, but needs to qualify with diversification adaptation in the workplace environment to the external culture of the country and economy it is expanding into. This requires cultural awareness and development according to the needs and background and culture of the country Amazon is expanding into thereof. Thus the culture of diversification of product and service now needs to incorporate diversification of vending and corporate culture in order to adapt to global retail environments, mergers, and customer needs.