

The strategic framework of amazon online



**ASSIGN
BUSTER**

Amazon. com Overview Amazon. com was one of the first major companies to sell goods over the Internet and has become a worldwide established name. Amazon. com is an American e-commerce company that is based in Washington. It was founded by Jeff Bezos in 1994 and began as an online bookstore but due to its success, Amazon has diversified into other product lines and services such as groceries, electronics and Merchant Program (see Appendix 1 for detailed portfolio). Amazon. com's stock price has fluctuated in recent years from \$105 in 1999 to \$5 in 2001 (Lauden and Traver, 2000). Amazon. com has developed separate websites for Canada, UK, Germany, France, China and Japan. Amazon. com vision is to become (Amazon. com, 2007): “ Earth's biggest selection and to be Earth's most customer centric company.”

Definition of Strategy

An integrated set of actions aimed at increasing the long-term well-being and strength of the enterprise relative to competitors.

strategic thinking: creative, entrepreneurial insight into the ways the enterprise could develop.

Strategic planning: systematic, comprehensive analysis to develop a plan of action.

Opportunistic decision making: effective reaction to unexpected threats and opportunities.

Strategic management: having an effective combination of coherent planning, incisive thinking and astute opportunism.

The Evolving Nature of Strategy and Strategic Planning in Organization:

World War II: Formal strategic planning arose as a result of developments in program planning and budgeting.

1950s: Harvard Business School highlighted the importance of having an overall corporate strategy to integrate the various functional areas.

Ansoff et al. (1976) suggested strategic management, a much more complex. Socio dynamic process that brings about strategic change in an organization.

Gluck et al. developed a model to describe its increasing maturity.

Strategy versus Planning:

Mintzberg: strategic planning is not strategic thinking. Strategy making process: capturing what the manager learns from all sources and then synthesizing that learning into a vision of the direction that business should pursue.

Hamel: planning is about programming not discovering

Porter: confused operational effectiveness with strategy

Operational effectiveness: performing similar activities better than rivals, a necessary but not a sufficient condition , Strategic positioning: performing different activities from rivals' or similar activities in different ways. (1)

The Strategic Framework

Three layers of strategic framework

The external environment

Pressure groups and stakeholders

Internal business strategizing and planning

The external environment

Pest Analysis

P – Political

E – Economic

S – Social

T – Technological Factor

External Analysis

The external environment is referred to as the macro-environment. This includes the broad

environmental factors which will affect organisations at various levels. It is important to

consider the potential impact of the external factors on the individual organisations.

(Johnson et al, 2006, P65).

1 PESTEL Analysis

PESTEL analysis is used to identify how future trends in the political, economical, social,

technological, environmental and legal environments might influence an organisation .

Pressure Groups and Stakeholders

Some groups can be both pressure groups and stake holders.

Pressure Groups – Demand of the organization.

Stakeholders – have a direct financial interest in the organization.

Internal business strategizing and planning.

External Analysis of Amazon. com

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PEST Factor Key point Relevance to Amazon. com

Political Government Policies More affordable internal

promote competition access and increase in internet users.

through telecom

liberalization.

Economic High interest rates Amazon. com may consider

slow Uk consumers entering India and developing

spending, the credit the Chinese market.

squeeze and the housing

slump has reduced

consumer spending in USA.

Social Increase in online social Marketing needs to take advantage

networking. Of this new channel.

Technological Increase in broadcasting Internet access by online

Factor shoppers.

Summary of PESTEL

Political, economic, social, technological progress indicates an increasing and attractive market

to be exploited by Amazon. com. The Chinese and Indian markets have shown exceptional

growth. The use of internet as a social networking channel has created new opportunities to be

exploited. Additionally, as environmental awareness increases globally (Stern et al, 2006) it is

important that Amazon . com's strategy support environmentally friendly activities. The global

nature of Amazon . com's activities also suggests that strategies developed should comply with

the different legal obligations internationally. (2)

Internal Analysis

Internal analysis provides a useful method to establish the relationship between Amazon. com's resources and capabilities (internal strengths), and how this is used to create value for the customer. The internal analysis can also help to identify the limitations within Amazon. com's operations.

The Value Chain

The value chain analysis undertaken examines the operational effectiveness of activities that

enable Amazon. com to perform better than its competitors; i. e. the distinctive value chain

activities that are difficult to imitate. Using the framework proposed by Amit and Zott (2001)

this analysis focuses on ‘ value creation’ and ‘ transaction cost economies’; where Amazon. com configures its value chain activities to create unique value for customers, reduce its costs of carrying out these activities and reduce the cost of its customers’ transactions. The figure below indicates examples of how Amazon. com has created value and reduced costs in its value chain activities.

NET INCOME ANALYSED

During the 2005 -2006 period, the company’s decision to increase investment in technology

and marketing by an extra \$662 million as well as increasing the marketing budget by an extra

\$65 million would have contributed to the extended down turn of profits.

Figure 12 shows net

profit margin decreasing from 8. 5% in 2004 to a very low 1. 4 % within the space of 2 years.

Such was the case until 2007 when the upward trend emerged once again; an indication that

some form of recovery is on the horizon. (3)

Importance: Amazon. com deemed investment into these two areas as critical in their bid to stay ahead of competitors. Payment of dividends to shareholders suffered as a result (0. 46

cents per share in 2006 compared to 0. 81 cents per share in 2005).

Amazon. com will therefore

need to consider such requirements and its implication on reported profit when orchestrating their desired strategic plan. Gearing, Debt and Capital Structure The gearing ratio above (debt/equity) shows the proportion of debt or long term borrowing to capital employed. In 2005, 82% of the company's finance was obtained through borrowing. Amazon reduced this to 68% in 2006. Such factors will need to be considered when considering our strategic options Gearing leads to interest's payments, decreasing the reported profit levels. Amazon reduced their interest cost by \$14 million in 2006 as result of the change in capital structure. Such progress has continued into 2007, with the company holding it lowest amount of debt to since 1998. (3)

Strategic Justification

Evaluative criteria have identified three viable strategic options; Market Development in China, Product Development, and Market Development through Face book. This report recommends that Amazon. com should focus on improving its performance in China through market penetration. This can be justified by China being one of the largest consumer markets in the world and has the potential to grow even larger. Today 77% of urban Chinese households live on less than 25, 000 RMB a year. It is estimated that by 2025, this percentage will drop to 10% (Farrell, Gersch and Stevenson,

2006). This indicates that it would be wise to improve Amazon . com's performance in China now so that it can take advantage of this growth in years to come.

Amazon. com have already spent millions in gaining access to the Chinese market and so we

recommend that Amazon. com aim to improve performance here before investing heavily in

other foreign markets (China Business Feature, 2008). This justifies why we do not recommend going to India or Scandinavia at this time.

From the PESTEL analysis constructed for China (See Appendix 6), Amazon. com can highlight the environmental factors affecting the company performance in China and identify the most important at the present time and the long term. The main issues affecting Amazon . com's performance in China.

Conclusion

This analysed the internal and external environment in which Amazon. com operates, which has resulted in the generation of several possible strategies. In conclusion, we recommend that market penetration in China is the most suitable, feasible and acceptable option based on Amazon. com's core competences and opportunities in the industry. Managing change and implementing strategies can be very challenging in a constantly changing, global environment. Therefore, Amazon. com will need to integrate its

resources and competence across different functional areas. “ Capability in separate resource areas is not enough”.