

# A business analysis project for amazon.com



## **INTRODUCTION**

Business analysis, a process of finding the needs and problems in business and generating solutions to cater to those problems. These Solutions should focus to achieve improvements in the process, incorporation of organisational change, planning and development to set a system of operation that is result oriented and effective. There are numerous tools and techniques used depending on the situation and requirement; few are PESTEL, PORTER's model, SWOT analysis, HEPTALYSIS, MOST, CATWOE, DeBono's six thinking hats, MoSCoW, five why's, VPEC-T and more; however only few of the above tools are used, very frequently in critical analysis at the initial stages.

## **ABSTRACT**

In this case we analyze as how Amazon. com has been performing off late, using the tools mentioned above. The advantages and disadvantages Amazon. com has over their competitors, where they have been lagging, their financial performance and strategic approach. Critical analysis will be done on their business environment and strategic approach to highlight any possible shortfalls and to provide with appropriate recommendations for improvements. Internal and external analysis will be undertaken to determine their marketing strategy, their response to global e-retailing industry.

## **COMPANY PROFILE**

Amazon. com based in Washington and found by Jeff Bezos in 1994 is global leader in e-commerce and it was the first company to introduce the concept

of selling goods on the Internet. Initially Amazon. com started as an online bookstore and its success led Amazon to diversify into other products such as gifts, music, electronics, groceries, toys and many more. Probably today there is no product that Amazon. com doesn't sell. Amazon. com has developed different internet portal sites for different countries such as Canada, UK, Germany, France, China and Japan.

Amazon. com was named after world's largest river Amazon and was assigned with a logo of an arrow starting from A to Z representing the customer satisfaction as the highest priority and fill their store houses with every product in the alphabet.

Amazon. com was open for trading under NASDAQ with a symbol AMZN for the first time on 15 may, 1997 by issuing initial public offering at a price of US \$ 18/share.

Amazon. com in its early stages was not very successful and did not produce any profits, which made investors rethink about their portfolio, major business and process restructuring was required; they had to cut down their costs to increase the profits and were tied up from diversifying into more products, however Amazon. com survived the “ dot com bubble” in 2000 which was the core reason for many e- businesses to close down and this was the turning point for Amazon. com after which they finally in the fourth quarter, 2001 they made their first profit which generated revenues of more than a billion\$ and \$ 5million profits in just 1 quarter. This led Amazon. com to prove to the world that their business model was profitable and also they

popularized online shopping which was recognized by time magazine and awarded Jeff as the business person of the year.

### **1. 3. MISSION & VISION STATEMENTS**

Amazon. com vision:

“ Our vision is to be earth’s most customer centric company; to build a place where people can come to find and discover anything they might want to buy online.” (Amazon. com, 2010)

Above statement reflects that amazon. com wants to be global leader in e-retailing business by providing the quality products at affordable price using latest technology to build the customer database and gain their loyalty towards the brand; thereby catering to the stakeholder’s interests and generating profits to the company. Expand themselves all over and build a virtual market place where customers can shop comfortably from at home.

## **ANALYSIS**

### **2. 1. EXTERNAL ANALYSIS**

The external environment also referred to as the macro-environment, plays a very important role in the operations of any business. Key environmental factors such as political, economical, social, technological, legal, etc. affect the organisations at various levels. It has become the need of the hour to consider the potential impact of the external factors on the individual organisations. (Johnson et al, 2006).

## **2. 1. 1 PESTEL analysis**

PESTEL analysis is conducted to determine current and future trends in political, economical, social, legal, environmental and technological environments, might influence the performance of business and what measures to be taken to avoid any shortfalls.

### **PESTEL**

#### **Factors**

#### **Key Points**

#### **Relevance to Amazon. com**

#### **Political**

Government policies incorporate competition and promotion by liberalizing telecom and e-commerce legislation

Increase in affordability and internet usage.

Investing in national ICT infrastructures by government (Euro monitor)

Reliable, faster and better internet usage for the national users.

Relaxation of competition policies in industry as compared to heavy industries in EU and North American regions

Expansion of markets at greater a pace by mergers and acquisitions.

#### **Economic**

To control inflation, interest rates varied which slows down the consumer spending in UK.

Off late spending has seen a downfall in US and rise in Asian markets due to economic growth; main reason being the credit crunch and tightening the housing loan (The Times online, 2008)

Opens the gates to other global markets to such as India and china.

Between 2006 and 2011 e-retailing grows tremendously by rising sales over 100%. This growth is backed by increase in the number of internet users in US, which has increased approximately by 85% after 2000. (Euromonitor International from national statistics)

Increase in potential customers for Amazon. com

The annual disposable income exceeds US\$5, 000. by 2011 covering around 620 million households; of these majority will be in Asia- Pacific next to western Europe. (Euro monitor International from national statistics)

Increase in potential customers for Amazon. com leading to the concept of globalization.

## **Social**

Popularity and increased use of online social networking.

Added advantage to market the product and the website

Interface available for users to shop and the increase in number of products lead to drop in online shopping.

Has to come up with a solution to reduce the security and financial risks to users.

Growth of internet from 2002 to 2011 is 288. 7%. 28. 9% of world population use the internet (Internet World Stats, 2009)

Huge market available to exploit and establish.

## **Technological**

Innovation of latest technologies increased broadcasting, internet access at cheaper cost.

Increase in number of users of technical devices such as mobile, iPods, TV, led for increase in internet access for online shopping.

Innovations and development of ' high-speed' internet services (broadband) has increased usage rich media applications.

Rich media applications are easily available to shoppers on internet.

## **Environmental**

Awareness about pollution and global warming.

Reduced travel and more shopping online.

Corporate social responsibility and global pressure to go green.

Can incorporate concept of green within postage and packaging, methods.

## **Legal**

No standard regulations governing e-retailing covering entire globe. Eg.

Federal trade commission in USA and data protection act in UK.

Should be well aware of both domestic and international legal laws.

## European E-retailing directive

Could impact the cross continental growth of e-retailing considering strict regulations (Jacobson, 2008 as cited in Zugelder et al, 1999).

The invention of electronic signatures Law.

Removes traditional legal methodologies and instate more secure and transparent legal environment.

## Summary of PESTEL

PESTEL factors indicate attractive global market to be exploited by Amazon. com. Asian markets have reflected tremendous growth opportunities in recent past. Advancement and usage of internet for social networking has led to new opportunities to be exploited. Amazon. com should support environment friendly actions as increased importance is been given to environment these days, also to be a true global company Amazon. com has to incorporate single global strategy which involves legalities common to all of the globe.

## 2. 1. 2 Industry & competitor analysis (PORTER's Model)

For any organisation the industry and competitor analysis is important as it comes handy for businesses to understand the competitive forces, market status, factors influencing, competitive strategic implementations.

Porter's Five Forces analysis is used to assess the attractiveness of different industries, and therefore, it can help in illustrating the sources of competition in a particular industry (Johnson et al, 2006).



## **Porter's five forces**

### **High**

### **Low**

### **Power of suppliers**

Suppliers retain the control as few brands and special products increase the cost down the network. For example Harry Potter books are exclusive from publisher which is an advantage for Amazon. com

E- Retailing sets a stage and makes it much easier for businesses to sell products directly to consumers without any third party in-between.

Power of suppliers rise if the control of certain type of products rests with one supplier than fragmented.

Products available easily pose low power to suppliers and they have to act to a mower margin.

Wider the market, wider is the scope for suppliers' thereby increasing number of suppliers.

### **Power of buyer**

Increased market competition has increased the power of buyers. Increase in number of online stores and comparison sites makes e-retailing business even more difficult.

### **Threat of new entrants**

Initial capital required for such a business is very low as it doesn't involve any inventory and storage costs and will only need to implement technology

Strong brand image incorporates good customer relations and trust.

Since the competition is very tight the suppliers who emphasize on economies of scale and consider business turnover over profits make more business and profits in the long run

Leaders in the online retail industry hold the advantage of customer loyalty and database while giving edge over the cost.

## **Threat of Substitutes**

Latest marketing factors such as feel, touch, hear physical stores; makes an effect.

One of the major threats to Amazon. com is online rentals instead of purchase as posed by texbookflix. com, bookrenter. com which reduces cost and pile of trash to a major extent.

Internet is a global marketplace where consumers can get information and products which are much better in quality and from overseas online for no or very little cost.

E-libraries, \$ and pound shops mark greater threat nowadays.

Mail orders, network marketing, catalogues although not very popular and effective yet pose threat to online buying

## **Competitive Rivalry**

Search engine plays a major role at the consumer end for it acts as interface between seller and buyer which generates opportunities and PR to other e-retailers.

Due to low initial investment costs there are a numerous affiliate online stores which are smaller still increase the competition.

## **Summary of key findings from Porter's Five Forces**

The competition in e-retailing industry is intense. There are number of small organizations adding frequently making the situation even worse. Main competitors to Amazon. com are B&N and E-bay.

The threat posed by small players and new entrants who can equally compete directly with Amazon. com is very low.

When consumers consider prices of goods they also consider brand image and if they are reliable, most of customers expect quality service than just quantity and lower priced service.

## **2. 1. 3 Competitor analysis / Benchmarking**

Amazon. com has a wide product range and equally wide number of websites that compete with Amazon. com. Most of the e-retailers concentrate on introducing variety of products in the current available market or entering the new markets across the globe or both in order to maintain economies of scale which helps catch up with the pace of e-commerce industry. If we consider how diversified the product line is and the geographical markets catered, eBay poses direct competition to Amazon. com. However Amazon. com is the market leader in current trend and they have immediate urgency to expand both their product line and geographical reach to remain as leaders.

As we can notice in the above graph, in 2006 Amazon. com's growth rate as compared to that of walmart was very low because walmart was a strong brand by then and had advantages of cross channel synergies and in-store pick up. In 2007 we observe the amazon getting closer to walmart's growth rate as they diversified into products such as music, cds, dvds, mp3 players and more; due to increased competition from these players walmart has been losing its market share continuously and however once can see that by 2008 Amazon. com is almost overtaken the walmart by providing with various offers such as free delivery and customer reviews.

(Source: Data monitor)

The above table shows position of Amazon. com but they are more diversified into the product line and geographically well spread. Companies like apple, hp, and dell do online retailing only for focussed group of products. However store based companies grew very strongly in 2008, but due to economical, hit not too many companies was able to survive. Amazon. com did by lowering delivery charges and provided with best offers. They also introduced ad-free TV and own download service and film streaming service in 2008 to outplay all of their competitors.

Through competitor analysis it can be concluded that

B&N. com is the leading competitor to Amazon in lifestyle goods and books. However, Amazon has a diversified product range.

Wal-Mart. com has almost similar prices as compared to Amazon but they have better product range such as pharmacy, photo printing and etc.

Ebay. com also has a wider product range and better geographical reach but their concept is different to Amazon. com

More competitive threat posed by Tesco, Wal-Mart as they have physical stores and eBay has better geographical reach, but however Amazon. com has option to develop the strategic alliances as they did in Japan with Lawson to capture the market.

Amazon. com has to design its strategies to address these competitive threats.

## **2. 1. 4 Global internet trends**

Internet Usage: china, US, Germany, India, Brazil, Japan are amongst the top 5 countries where internet is used the most; Amazon. com has made its impact in all the above countries except for India. This implies and directs Amazon. com to exploit hidden opportunity in Asian market and huge business potential for future. Graph below shows the popularity of internet in the 21st century, which indicates the future of e-commerce as trends keep changing.

C: UsersWELCOMEDesktoptop202010. jpeg

(Source: Worldinternetstats. com)

The graph below shows the dominance of Amazon. com sector wise. The balloon shows of all the business done by amazon. com majority has been in internet retailing; direct selling, vending and home shopping is almost void. This reflects the influence of internet on the business of Amazon. com. It is also seen below emerging markets and present markets where currently

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Amazon. com has its presence. Of all the retail sales value Amazon. com holds a very small share but then future trends look brighter as the CAGR expected is highest in India by 2011. This lays a pathway to Amazon. com as to establish themselves without any delay in India.

(Source: Data monitor)

(Source: Data monitor)

## **2. 2. INTERNAL ANALYSIS**

Internal analysis can be conducted to determine relationship between the organization's available resources and its application to generate value proposition to the customer, it can also be used to determine the limitations, advantages and disadvantages within the organizations.

### **2. 2. 1 The Value Chain**

The value chain analysis helps determining the effectiveness of actions that makes organizations standout from their competitors and take a lead; i. e. activities that are difficult to duplicate. Applying the framework laid by Amit and Zott (2001) analytical objective of value chain is attaining of ' transaction cost economies' & ' value creation'. Amazon. com focuses on reducing the costs in creating unique value to its customers.

Support Activities

### **Value creation**

Firm Infrastructure

All of the business units are provided with central customer data warehouse; and planning functions from headquarters.

#### Human Resource Management

Amazon. com employees enjoy benefits such as stock grants, relocation allowances, paid

Time off & medical. Such an approach invites warehouses to be in cheaper locations yet attract skilled labour.

#### Technology Development

Amazon. com implements latest technology to leverage opportunities in digital sales such as videos, music, eBooks (The Economist, August 2006) Being able to digitize media for online download or for “ Search inside the book” service.

Usage of hardware systems to reduce cost of maintenance and compatibility

#### Procurement

Using the SBU-Book bank to maintain inventory of digital copies of books so as to make it available readily for customers on-demand and reduce time of delivery

(The Economist, August 2008).

Usage of recyclable cardboards for packaging.

## **Primary Activities**

### Inbound logistics

Robust forecasting technology ensures no or very returns of goods to suppliers.

Collection of customer feedback and experiences to defragment inventory and delivery controls.

### Operations

Secure and fast online payment systems.

Employ 24/7 warehouse services to meet consumer demands.

### Outbound

#### logistics

Built in close proximity of a robust transport system e. g. Bedfordshire fulfillment centre located next to M1.

Ability to collate orders from around same locations.

### Marketing & Sales

Live customer interaction to offer suitable products at discounted prices and product mix, leaving customer feel more valued.

Robust shipping price calculation and shipping all the products for the price of one.



## Service

Free consumer friendly returns policy within 30 days on unsatisfaction, inviting consumers to try more new products.

Provision to select between old and new products with price comparison

### **2. 2. 2 Financial analysis**

In Q4 2009, Amazon reported 42%, \$9. 52b rise in sales as compared to worldwide sales of previous year which was \$24. 51b, a mere 28% rise under the economic pressure; they also benefitted from the investments into customer services in Q3; however rise in their revenues all over the world doesn't imply high profit margins. As compared to the consistent rise in sales, the profits have been fluctuating, however their margins are very low as compared to the turnover, reason being the economies of scale and competition.

(Source: GMID)

Amazon. com did see a drastic rise in number of active customers in latter half of 2009, in the final quarter the average revenue/ customer rise more than \$90, a mere 63% hike as compared to previous quarters.

However rise in sales and number of active customers also rise their expenses significantly except for technology costs. \$274m, 84% more as compared to previous quarter was spent on marketing activities. They invested money on paid search engine marketing, search engine optimization and content development. Also they entered into price war with their competitors to tie-up consumers by reducing their prices of electronic

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goods persuading consumers to buy from them which raised the revenues and number of customers.

Amazon Global Revenue and Active Customers 2009

([www. 365daysofretail. com](http://www.365daysofretail.com))

Amazon 2009 Expenses: Fulfillment, Technology, and Marketing

([www. 365daysofretail. com](http://www.365daysofretail.com))

Below shows a summary of balance sheet and income statements for 10 years, as we can observe amazon. com has been adding value to its stakeholders year on year where EPS has risen to 2. 04 from 1. 49 previous year. Amazon. com has been very consistent ear on tear however between 2005-2006 their EBIT dropped because they had high budget on marketing and investment in systems which allowed them to stay ahead of competitors.

C: UsersWELCOMEDesktop11. bmp

C: UsersWELCOMEDesktop12. bmp

([www. msnfinance. com](http://www.msnfinance.com))

Debt, Capital and gearing ratio indicates the ratio of debt to capital invested. 82% of the finance was from borrowing in 2005 which reduced to 68% in 2006 and has further reduced dramatically. Debts lead to the interest payments decreasing the profit margin, however if the cost of debt is less than capital cost then one can opt for debt, but Amazon has been continuously reducing their debt cost year o year and is just \$109m in 2009.

New projects has to be financed which emphasizes amazon. com to borrow, this can be justified by the data where interest cover has increased regularly concluding amazon. com ability to pay interest by 33. 1 times is profitable.

Amazon has huge financial reserves and can used for innovative research and development programs and technological implementations where they can incorporate single global strategy and also penetrate more geographic markets to create value to the stakeholders and customers.

## **2. 3 SUMMARY OF ANALYSIS**

### **2. 3. 1 SWOT analysis**

From a detailed Internal and external analysis we can conclude and summarize the Amazon. com strengths, weakness, threats and opportunities from the following SWOT analysis.

#### **Strengths**

Globally recognised brand

Research and development programmes

Geographical presence

Customer focussed vision

Diversified product line

Incorporation of latest technology

Amazon. com affiliate and merchant Program

Highly skilled employee base

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Best inventory and logistics.

Huge economies of scale

## **Weaknesses**

No physical stores

Lower profit margin due to high competition

Low cash flows

Lower market share in countries like India and china.

## **Opportunities**

Tremendous growth in digital downloads

Popularity of social networking

Increase of online shoppers in Asian markets

Open options for expansion via M&A.

Increase in e sales and growth of e-retailing

Advancement of digital technology

Rise in consumer spending across the globe

## **Threats**

Vastly dependent on vendors

Huge competition as it requires low capital

Applicable Patent regulations.

Piracy

Concentrated business vision.

## **CONCLUSION & RECOMMENDATIONS**

### **3.1 CONCLUSIONS**

Analysis tool

Key point

Strategic essence

PESTEL

Rise in number of internet users.

High priority to environmental issues

Various government policies aiding now than before.

Rise in internet usage opens new markets like china and India.

Environmental issues can be utilized to advantage by incorporating proper CSR.

Legal and government policies usually are havoc.

Porters 5 forces

Rise in competition levels taking into consideration the porter's five forces.

Amazon. com has the competitive advantage and the value proposition.

### Competition

Competition from new entrants and stores are growing at a very high pace and geographically.

Amazon. com strategy and diversified business focus leading to innovation should be implemented.

### Future internet trends

USA, China, Japan, Germany, Brazil and India are the top internet users between 2006-2011.

Amazon. com has a presence in all these countries except in India.

### The value chain

Amazon. com is equipped with global IT, high investments in technology and systematic logistics with a centralized management.

This stands out Amazon. com from other players in the market hence they should hold the competitive advantage of brand image.

### Resource Based View

Biggest asset of Amazon. com is customer base, web personalization and value proposition they offer to their customer.

Utilize the available resources, technology and global strategic reach to outplay competitors.

## Financial Analysis

Rise in revenue every year and %CAGR growth has not led to high profits.

Manage costs, resources and economies of scale more effectively to generate more profits

## 3. 2 RECOMMENDATIONS

### **Long-term focus**

Internet retailing presents a challenge to traditional retailing to see increased investments from store based retailers such as wal-mart making it more crucial for amazon. com to maintain a long term vision and invest in innovation, customer experience, diversified product range in spite of profit maximization expectations.

### **Exploit New Markets**

Amazon. com should consider entering into more new markets especially Asian where the buying power, standard of living and the demand has risen dramatically over past few years as global economic changes take place.

### **Downloads Expansion**

Amazons core business in future will be digital downloads, although they were latecomer in the field of film, music, TV downloads they have to cater to the demand in a highly competitive market along with their diversified product line. Also they have to concentrate on eBooks media division.

### **Sensitivity to changing variables**

It is very important for amazon. com to be sensitive to the minor particulars such as changing trends, tastes, preferences of consumers from time to time  
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as the purchasing power and changing lifestyles generate more demand leaving companies like Amazon. com to respond hence such a market research and imagination will be an advantage.

### **Build selling opportunities**

Amazon. com should seek ways to sell products to customers with less havoc, instantly and securely as they did in text message selling without internet. In order to achieve this they need to have high end technical skills. Recently released kindle can also be used as a tool to increase the download sales.