

Amazon case study essay sample

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



INTRODUCTION:

Amazon. com was founded by Jeff Bezos in July 1994, after the former investment banker left New York for Seattle with the idea of creating an online bookstore. He launched the Web site the following July with the idea of selling books to a mass audience through the Internet. In many ways, Amazon. com is perhaps the company that is most closely tied with the E-Commerce phenomenon. The Seattle, WA based company has grown from a book seller to a virtual Wal-Mart of the Web selling products as diverse as Music CDs, Cookware, Toys and Games and Tools and Hardware. The company has also grown at a tremendous rate with revenues rising from about \$150 million in 1997 to \$3. 1 billion in 2001.

Amazon transformed itself from a specialty retailer into an online shopping portal, taking a cue from auctioneer eBay, which set itself up as a mediator between buyer and seller. It started selling products from companies such as Toys “ R” Us and Target on its Web site. It added merchandise from smaller retailers in its zShops. And it competed directly with eBay through its Amazon Auctions.

CURRENT MISSION, GOALS, & STRATEGY:

Amazon. com’s mission is to leverage technology and expertise to provide the best buying experience on the Internet. The goal is for people to come to Amazon. com, find whatever they want, discover things they didn’t know they wanted, and leave feeling like they have a new favorite place to shop. Amazon. com’s ultimate goal is to be world’s most customer-centric company. Amazon’s current strategy is one of expansion through

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acquisitions and although they have enjoyed some success with this approach it has yet to positively affect the bottom line..

INTERNAL ANALYSIS: See attached IFEM

Amazon is a very strong company internally with an IFEM score of 3. 17.

MANAGEMENT:

Two factors accounting for 15% of the internal matrix were management. One of Amazon's greatest strengths is its management team. Amazon set out from the very beginning to hire the best professionals they could find, luring executives from other successful companies such as Wal-Mart, Microsoft, Barnes & Noble, and Symatec. These executives bring with them expertise in fields including marketing, software development, financing and distribution.

From 1996 (a year after the company had initially began selling to the public) to 2003 Amazon had one goal – “ Get Big Fast”. That is exactly what they did. Using strategies of forward integration, acquisitions and joint ventures they took more direct control of their distribution, began operations overseas, and expanded into everything from books to electronics to travel. Although this rate of growth increased their market share it weakened their financial position as capital was required to finance the many acquisitions and joint ventures.

MARKETING

Two marketing factors account for 15% of the internal matrix. Amazon has a very strong brand name, which according to a report from a British marketing firm, is the fifty-seventh most-valuable brand name worldwide. This value is due in large part to the fact that Amazon is recognized by over 52% of adults in the United States and Europe. Amazon is known for its selection of products as well as its pricing policy which discounts many items.

In an effort to maintain its low prices, Amazon has consistently decreased its marketing expenses (as a percentage of net sales) since 2000. By passing these savings directly onto consumers Amazon has managed to increase sales while lowering marketing costs. This is a double-edged sword, because although it allows them to keep prices lower it lessens their ability to aggressively market their products.

PRODUCTION OF A PRODUCT

Three production factors account for 23% of the internal matrix. Amazon's size allows them to be an effective online low-margin retailer. Amazon is able to capitalize on efficiencies of scale through bulk buying practices as well as decreased distribution costs. Amazon operates distribution centers worldwide and fills them with products purchased at large bulk discounts. This enables them to efficiently distribute low cost products quickly.

THE PROVIDING OF A SERVICE

Two service factors account for 15% of the internal matrix. Amazon provides a high level of customer which is evidenced by their repeat order rate of

70%. Satisfied customers are repeat customers. To ensure that customers are satisfied Amazon provides a round-the-clock telephone service to assist with any problems/concerns that can not be addressed directly on their web sites.

INFORMATION SYSTEMS

Two information systems factors account for 15% of the internal matrix. Amazon understands the role technology plays in their business, and this understanding has led them to invest heavily in technology to improve both customer service and product distribution. As more businesses enter online-retailing customer service becomes vital to ensure that customer's have a pleasant shopping experience on a particular business' website. To meet this end Amazon built a strong customer service support system which includes comprehensive help files on its Web sites along with a proprietary technology called " 1-Click" that automatically invokes all relevant customer details on repeat orders with one click of the mouse.

Amazon has invested heavily in automated distribution centers across the United States and overseas in order to increase the speed and efficiency of distribution. This gives them the competitive advantage of being able to fill orders faster than the competition, especially during peak periods.

FINANCE

Two finance factor account for 15% of the internal matrix. Amazon finds itself in a relatively weak financial position. With a Current Ratio of 1. 45 and a Quick Ratio of 1. 22, Amazon is relies too heavily on the sale of its

inventories to meet its short-term obligations and its Debt to Assets ratio of 0.90 demonstrates that an excessive amount of Amazon's total funds are provided by creditors. Amazon's current financial position will restrict it from further rapid expansion and require it to continue to look for ways to eliminate costs from its current structure. Although its technology and size provide a definite competitive advantage, they do not come without cost.

EXTERNAL ANALYSIS: See attached EFEM

Amazon appears to be competing in a moderate environment as indicated by the EFEM score of 2.51.

COMPETITION AND THE INDUSTRY:

Four factors making up 36% of the external matrix were competitive. Three of Amazon's greatest competitors, Wal-Mart, E-bay, and Barnes & Noble are quickly advancing into Amazon's territory with comparable products. Wal-Mart and Barnes & Noble are already strongly established at the top of their respective markets in the retail industry. They are entering the online industry already backed by consumer confidence which makes them formidable competitors. E-bay is growing in popularity by the minute and continuously broadening their range of products and functionality of their site. The threat these three companies pose along with the threat posed by the countless number of online startups due to low entry barriers is why competition makes up more than a third in weight of Amazon's external factors.

TECHNOLOGY:

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Technology is Amazon's number one asset. Because of this, growing e-commerce and the increased availability of high speed internet access are Amazon's two greatest opportunities, making up 21% of the external matrix. Increased speed is especially important because technology takes up space. The more bells and whistles added to a site, the slower it will run and the less likely a consumer will be to browse or return.

ECONOMIC:

The yen raising against the dollar this causes profits in yen to be higher once converted to the dollar. It also strengthens the US businesses in that it costs US consumers more to import goods from other countries. This is why the rising yen presents an opportunity for Amazon making up 5% of the external factors matrix.

DEMOGRAPHIC:

According to studies, Latino and Hispanic Americans are the fastest growing online ethnic group prone to buying home theatre equipment. Another study states that the Average American Internet user is well educated and affluent. This information provides a unique target marketing opportunity for Amazon. The downside to the Average American Internet user is that the entire American market is not effectively being reached. These factors make up 16% of the external factors matrix.

GOVERNMENT:

The lack of internet taxes is an opportunity online retailers have vs. traditional retailers. A consumer can save a lot on major purchases by not paying taxes. The fact that the government continues to support the Internet tax exemptions provides an opportunity for all online companies because it lowers the buyer's costs and makes buying online more attractive to consumers.

SOCIAL:

Internet users continue to grow, which is good news for any internet company. More users equal more potential customers. Those customers are becoming better educated in regards to secure internet transactions, which mean they are no longer as skeptical about making credit card purchases online. These factors combined account for 14% of the external factors and provide the opportunity of increased sales.

STRATEGIC OPTION ANALYSIS: See the I/E, SPACE, TOWS and QSPM

THE I&E MATRIX:

The I&E plot indicates a “grow and build” posture which recommends that Amazon pursue intensive strategies (including market penetration, market development, product development) and/or integrative strategies (including backward integration, forward integration and horizontal integration). Amazon has already shown that it can be effective in using horizontal integration and market development to grow its business. It is now time for Amazon to utilize more of a market penetration approach by utilizing its

websites to inform would-be customers of the many products and services they offer.

Although the recommended posture is grow and build, Amazon may find this challenging as their current financial condition might make it difficult for them to finance any of the recommended strategies through debt. Amazon will need to look for creative ways to reduce current costs to further increase the size and scope of the organization. Fortunately, Amazon appears to have the qualified management required to discover and undertake further cost reduction. By continuing to drive down costs in their operation, Amazon can use their increased profits to re-invest in the organization.

THE SPACE MATRIX:

The SPACE matrix shows a plot in the COMPETITIVE quadrant which generally seems to agree with the I&E matrix. This plot re-affirms Amazon's weak financial position (FS+2. 25) and its strong competitive advantage (CA-1. 50). Overall the industry is full of opportunity (IS+3. 67), but Amazon finds itself in a slightly unfavorable environment (ES-3. 67) with tough competition. In addition to the strategies already outlined in the I&E matrix, this plot would also recommend that Amazon look to joint ventures as a strategic option. Amazon needs to utilize its advantages of size, technology and exceptional customer service to overtake their competition.

THE TOWS MATRIX: (The TOWS MATRIX yielded seventeen strategies)

Sixteen B/C strategies were identified to include market development (MD), concentric diversification (CC), innovation (IN), service development (SD), product development (PD), market penetration (MP) and combination (CB).

One functional strategy was identified addressing marketing (MG).

RECOMMENDED STRATEGIC THRUST AND SUPPORTING STRATEGIES:

Amazon needs to focus on staying competitive and controlling the market while at the same time strengthening its bottom line.

FUNCTIONAL STRATEGIES

Strategy A – Management (S3, T3, T2, t5) – Jeff Bezos has put together an amazing team of highly skilled executives, all of whom have experience in big business. These executives know their major competitors than anyone and should be able to anticipate approximately what they will, or should, do next. Using this knowledge, Amazons management team should be able to out think the competition a plan two steps ahead. Amazon has a unique opportunity in that it has former executives of Barnes & Nobles as well as Wal-mart on its team.

B/C (BUSINESS/CORPORATE STRATEGIES)

SHORT RANGE-INITIATE IMMEDIATELY AND IN PRIORITY:

Strategies #13 – Market Penetration (S1, S2, S3, S4, s7, s8, T2, T3, t5)

Amazon is better than the competition and needs to let everyone know it every chance they get. They can back up their claims by stressing all their

strengths. This strategy would piggy back most other strategies implemented by Amazon helping to increase revenue.

Strategies #8 – Concentric Diversification (w2, o7) Technology is endless, and endless amounts of money can be spent on it. There are many things Amazon.com can do, technologically, to improve their site that will increase their sales. There are also many things they can do that most customers will never notice. Amazon must continually monitor its technology endeavors thru research such as surveys and trial runs to ensure the cost justifies the rate of return. On the other hand, they must have the most functional, user friendly, up to date, and innovative website in order to keep ahead of the competition.

Strategy #2 – Market Penetration (S2, s4, O8) Amazon needs to take advantage of the weak dollar immediately, before the economy changes, by pushing its American products overseas to areas where Amazon already has a distribution infrastructure in place. This will increase their profits not only through selling more, but also when the foreign money is converted back to the dollar.

Strategy #3 & 10 – Market Development (S1, O2, o6) & Service Development (s8, s10, o6) Amazon's 24/7 live customer service is a real asset in that new online users cannot always find the information they are looking for quickly due to their inexperience. This can lead a potential consumer to become frustrated and leave the site all together. The ability to simply pick up the phone at any time and speak to a live person is lacking in the online industry, which is where Amazon holds the advantage. Amazon's 1-Click

technology further provides ease for users in that information only needs to be entered once making transactions quicker and more efficient. Internet users must be made aware of these features in order to draw them to Amazon. com. They also need to be informed of the fact that the competition lacks this functionality.

Strategies #6 & 12 – Market Penetration (s8, O2, O6)(s8, s10, T1) Amazon is known as a trusted brand. New internet users are generally a bit scared of the internet fraud at first. Amazon is a company they already know. Market the trust and comfort aspects of Amazon to draw new internet users all over the world to Amazon. com where they can be confident their information will be secure.

MID RANGE – BEGIN PLANNING IMMEDIATELY FOR IMPLEMENTATION IN 2 TO 3 YEARS:

Strategy #9 & 1- Innovation (S2, s6, T1) Market Penetration (S5, s6, o7) Amazon needs to come up with innovative ways to cut costs while at the same time improving quality so that they may pass those cost savings onto their customers. Being as big as they are, Amazon is in a position to make bulk buying deals with suppliers in order to keep their prices lower than their smaller competition. Educated internet users typically go to multiple sites before making a purchase, and if Amazon can consistently offer the lowest price products with outstanding customer service, chances are those users will visit less of the competitions sites in the future.

Strategy #15 - Product Development (W2, o7) Amazon should come up with an "exclusive" or "signature" product line aimed towards affluent internet users. Products such as high end jewelry or high end gifts would help to generate revenue and in turn, improve Amazons bottom line. This strategy should be implemented in the mid range to avoid the chance of losing the market.

Strategy #14 -Horizontal Diversification (W3, T3, T5) Wal-mart is by far one of Amazons greatest threats. They are on top of their market in the retail sector and striving to do the same in the online sector. Amazon sells pretty much all the products that Wal-mart sells at competitive costs, but has the advantage of experience in the online markets. This has allowed Amazon to expand its range of products to include many more than Wal-mart. Amazon should continue in this direction of bringing new products as well as services (possibly travel services) to it's customers to maintain its position as number one online retailer.

Strategy # 11 - Service Development (S2, S4, T4) Amazon. com has developed an impressive distribution infrastructure that has the ability to drastically reduce shipping times as well as shipping costs. Because of this, Amazon can justify offering free shipping as well as delivery time guarantees. Amazon needs to closely monitor its competition in this area so that it can quickly react to any shipping offers made by them so that they may top them.

LONG RANGE-BEGIN PLANNING NOW FOR IMPLEMENTATION IN 4 TO 5 YEARS:

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Strategies #5, 7, & 4- Market Penetration (s3, o5), Market Development (w3, O5), & Concentric Diversification (S4, o5, o7) With the information available in regards to Latino and Hispanic Americans and what they generally purchase, advertising toward that group can be intensive as well as specific. A Latino/Hispanic option (as well as other nationalities) could be added to Amazons home page which would redirect users to a targeted homepage written in the target audience's language, featuring the goods they typically buy. Securing this market would add to the loyal customer base which would increase the growth of the company.

NOT RECOMMENDED

Strategy #16 – Joint Venture (W2, T2) Although seeking to enter a joint venture with e-Bay may eventually be a worthwhile strategy, Amazon initially needs focus its financial resources on improving what they already have.