

Amazon.com's european distribution strategy

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Amazon Amazon is one of the biggest and most famous online stores in the world. It is divided into several independent organizations like Amazon Europe, Amazon US and Amazon Japan. Amazon was founded in 1995 by Jeff Bezos. At the beginning it was just a platform for selling books at soon it became the world's biggest bookstore with up to 2, 5 million different titles. Their strategy was clear and easy: hold modest inventories and rely on wholesalers. The wholesaler can fulfill the order quickly while Amazon employees pick and pack the order and ship it to the customer.

In 1996 Amazon grew really quickly by expansion of their distribution center, increasing number of titles and software development. In 1998 they were not longer a bookshop any more but expanded their product lines to music and videos. However, they had to face tough competition, especially in 1998. So remain the leader of the online stores Amazon decided to pursue a "get big fast" strategy to increase their revenue. Therefore they added new product lines and adapted its supply chain and distribution network.

One big decision was also where they should locate their distribution center and how many they should build. Amazon's pick was a distribution center in Nevada, Kansas and Dallas. Soon also three more centers were added to serve the Midwest and the Southeast. The next step was to choose which product types each of the distribution centers should carry. After that they had to make a decision regarding the equipment in the new distribution centers and the technology used in their warehouses.

Finally, to maintain high levels of quality and productivity in its distribution centers, Amazon developed key metrics to measure worker performance, including number of items picked per hour, free replacement rate, inventory

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accuracy, number of hours from order confirmation to shipment, and cost per unit shipped. Performance information was routinely shared with individual workers. In 2000 the new Vice President of Operations Wilke started with teaching the staff to use a special method to reduce variations and defects.

This approach was later also used to improve the inventory record accuracy. Moreover, Wilke hired staff to stimulate holiday season conditions and he made arrangements for additional storage capacity. On top of that Wilke also focused on inventory optimization in the fulfillment network. To have the products at the right time available will easily decrease Amazons inventory costs. There were several ideas to improve the inventory management:

- 1) Refine the software used to forecast customer demand
- 2) Establish buying rules to better allocate volumes among wholesalers
- 3) Integrate its supply management system with its own inventory, warehouse and transportation system
- 4) Implement buying rules to determine which supplier offers the best price and delivery options
- 5) Having “ drop ship” orders which means that the product is directly shipped to the customer without going through an Amazon distribution center
- 6) Partner with other companies, with Amazon handling order fulfillment and the partner covers the costs for the inventory

The last two points were just idea and never realized. Amazon entered Europe through the two countries Germany and the UK. To enter those markets Amazon acquired a leading online store in each country and the two sites were re- launched under the Amazon brand. In 2000 Amazon continued its expansion and entered France. They did not use the same strategy as in Germany and the UK, but build their site from scratch. However, there were

several challenges to enter the European market. They had to be aware of the cultural differences in Europe.

First, Amazon adapted their website always a little bit to the needs of the country; secondly, they needed to address the selling regulations in each country. Another very important point was the payment options. Because there were not many people in Europe using credit card they had to offer local paying possibilities. On top they recognized that it was impossible to replicate the US procurement strategy in Germany and France because of different supplier market factors. To implement these strategic choices Amazon in Germany, France and the UK were managed as independent Amazon subsidiaries.

Each country has its own organizations and was headed by a country manager and every country has its own warehouse. Amazon also was evaluating opportunities to expand in other European countries. Amazon Europe needed to build up its infrastructure to support this ambitious vision. In June 2002, Tom Taylor was transferred from Seattle to London to address some of these issues. In the longer term, Taylor wondered which infrastructure would best support Amazon Europe's growth potential. Amazon's decentralized fulfillment model seemed to offer opportunities for rationalization and cost savings.

One option was to link all distributions centers. The other option was to keep the three distribution centers. There were also different options about the inventory in these three centers. One could hold the inventory in all three centers or just in selected ones. Another question was regarding the location of the distribution centers. Solution First there was the option of only one

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distribution center in Europe. This strategy certainly has advantages with regard to lower overhead costs, simplified internal communication, and increased bargaining power due to higher allocation volumes.

Considering only the difficulties already encountered in attempting to coordinate national postal carriers for a trustworthy delivery service to international customers, the option to centralize delivery from the UK to all European markets would be a step in the wrong direction. This was a clear difference to the US market; where there was only one postal service serving the entire nation. Express delivery would further complicate matters, as European markets varied with regard to provider and service, another problem not encountered in the US.

Since delivery time and quality are crucial to success at Amazon, this restructuring option was quickly eliminated from the list of alternatives. The division of Europe into North/South or East/West sectors, to be served by two Distribution Centers, would likely reduce delivery times in many markets and eliminate some of the difficulties associated with the single DC alternative. Compared to the current structure, cost savings could be achieved and activities could be bundled according to regional demands or opportunities (i. e. legal or financial flexibility). This structure would emulate the solution realized in the initial growth period in the US, where a DC was located on each coast, however there would be similar problems as noted above with the coordination of national postal carriers. Another primary difference compared to the US market could be seen with regard to regional consumer preferences and tastes. While the US product selection was largely similar,

and a common language was used throughout, product selection and language differs from country to country in Europe.

Expectations with respect to delivery time, service, payment methods, etc. also vary greatly among European markets and do not compare to the credit card-friendly and on-line purchase-accustomed customers in the US. A two-DC solution may likely not be able to offer the flexibility needed to serve the individual European markets properly. Considering that the three European locations are fully-functional, another alternative would be to simply keep the existing facilities while reallocating services and processes according to cost and service factors.

One obvious advantage would be recognized in not needing to relocate or build/acquire new infrastructure. Activities could be spread among the three locations, for example books, media and smaller items in France, Marketplace headquarters in the UK, and bulk or special order items in Germany. This would allow for specialization of services and a clear distinction of functions for management of operations in Europe. In contrast, all services could continue to be provided in all locations, with the addition of products and Marketplace activities in each of the three.

Expansion into further markets may be allocated to one of the DC's according to geographic proximity or if applicable, according to financial or logistical aspects. Disadvantages include duplication of activities and infrastructure, increased demand for management and personnel, and the administration/coordination of multiple and varying IT systems (including the integration of manual and automated systems). Our team of analysts

proposes a solution which integrates components from each of the aforementioned alternatives.

Due to the fact that consumer preferences and expectations vary significantly among markets, and since delivery systems are also not consistent from country to country, each market should be served as locally as possible. This does not exclude the option of bundling some functions in specific locations; in fact this should be undertaken. Marketplace activities, for instance, shall be centralized in the UK, since this activity mainly is based on and requires IT functionality.

The central functions Customer Service and Procurement also shall be allocated to the UK. With respect to the expansion of product lines, this should be done according to regional/international classification. Items which are non-country or language specific, such as CD's, electronics, hardware, etc. can be allocated and administered at a central European location; in this case France may be selected. Bulk items would be the responsibility of a continental-based facility as well, preferably Germany due to its central location.

Any country or language-specific items, i. e. books, fashion apparel, home decor, etc. shall be administered in mini-DC's located within each market. This would assure the "local touch" required by customers, and would allow for more effective negotiations with local market suppliers. Newly added markets could first be served from the existing three, with the establishment of a mini-DC in the market as soon as the product volume, logistic opportunities and demands, as well as customer buying behaviors are sufficient to justify local investment.

Without a doubt, the solution our group has provided leads to higher costs and increased complexity in a number of areas. However, the underlying principle was to devise a way to build the brand and company image in a similar way that was successful in the US market – serving the customer in a quick and simple way. At the same time, the bundling of core functions offers an opportunity to reduce costs and redundancy.