Amazon.com: the brink of bankruptcy assignment

Business

Amazon. com: The Brink of Bankruptcy Jeffrey Bezos, formerly a senior vice president for D. E. Shaw & Company, founded Amazon. com in 1994. D. E. Shaw is a Wall Street-based investment bank, and Mr. Bezoswas assigned to find good Internet companies in which to invest. During the summer of 1994, he stumbled across a Web site that showed the number of Internet users was growing by 2, 300 percent per month. He quickly realized the vast potential of the Internet, and began putting together a list of possible products that he could sell on the World Wide Web.

He eventually narrowed his list to music products and books. Although music products and books both had enormous potential, he eventually selected books because he believed that he could compete more evenly in the book segment due to the lack of a very dominant player. In contrast, the music industry had only six major record companies. These companies controlled the distribution of records and CDs and, therefore, had the potential to lock out a new business threatening the traditional record-store format.

To begin his new venture, Mr. Bezosleft New York and moved to Seattle. He decided to move to Seattle for two reasons: 1) Ingram Book Group’s warehouse is located near Seattle; and 2) Because of the Seattle area’s reputation for computer expertise. In 1995, Amazon began selling books entirely online, operating out of a rented facility and using doors laid across sawhorses for desks. He soon was able to generate several million dollars from venture capitalists, and sales were astounding.

Sales for 1995, 1996, 1997, 1998 and 1999 were $0. 5, $16, $147, $610 and $1, 640 million respectively. Amazon’s customer base has increased dramatically from 180, 000 in 100 countries in 1996 to 12 million in 160 countries by mid-1999. In 1998, Amazon began to expand into other product categories. The companybegan to sell music products and videos, and within two months of these additions, Amazon became the number-one seller of books, music, and videos on the web. During 1999, the companyfurther expanded its product line.

Amazon now offers toys and video games, electronic greeting cards, electronics and software, home improvement supplies, online auctions, DVDs, and an online mall called zShops. More recently, Amazon has begun to expand internationally. The basic mission and goals of the company are evident in the words of Mr. Bezos, “ We have one strategy at Amazon. com – provide the customer with the best shopping experience. ” Additionally, “ our goal is nothing short of building the world’s most customer-centric company. ” These quotes from Mr.

Bezoscould be combined to create an effective mission statement, as follows: The mission of Amazon. com is to leverage technology and the expertise of our invaluable employees to provide the best buying experience on the Internet. Our goal is nothing short of building the world’s most customer-centric company capable of providing our customers with the best shopping experience online today, and into the future. Amazon posted $410MM in books, music, and video U. S sales. Growth in this sector continues to be fairly anemic.

Moving into other segments of the online retailing industry (i. e. , consumer electronics) could dampen this negative trend. Lastly, “ the growing number of bankruptcies among pure-play e-commerce companies should enhance the competitive position of companies, such as Amazon, longer term. In other words, fewer industry participants should lead to increased potential scale for survivors such as Amazon. Not only will fewer companies lead to less distribution of e-commerce revenues among smaller e-tailors, but should also benefit from less price competition over time.

Another potential threat for Amazon is that the barriers to entry in the online retailing market are minimal. Start-up costs are minimal, and anybody can start their own Internet shop. " According to Mr. Bezos, Amazon differentiates itself from potential rivals in many ways, besides just marketing and aggressive brand promotion. He observes (Fast Company, 1996): People who just scratch the surface of Amazon. com say-' oh, you sell books on the Web'-they don't understand how hard it is to actually be an electronic merchant. We're not just putting up a Web site.

We do 90% of our customer service by e-mail rather than by telephone. Fourteen of our 110 employees do nothing but answer e-mail from customers. There are very few off-the-shelf tools that help do what we're doing. We've had to develop lots of our own technologies. There are no companies selling software to manage e-mail centers. So we had to develop our own tools. In a way this is good news. There are lots of barriers to entry" (Kotha, p. 10). Amazon continues to focus on developing its business, which has translated into market share gains.

Amazon's sales growth is exceptional, as evidenced by a 5-year growth rate of 457. 91%. Additionally, the Company's turnover ratios are excellent compared to its competitor group. However, the Company's net profit margin is atrocious at (37. 98%). The Company's fulfillment costs as a percentage of revenues remain well above traditional retailer levels making it difficult for Amazon to compete in the long-term as it would hold a significant competitive disadvantage in terms of outbound distribution costs.

It would be the desired outcome for Amazon to use its competitive strengths (powerful brand name, management experience and distribution and technology infrastructure) to achieve its objectives. Amazon current stated objectives are: 1) To put customer satisfaction first by using the Internet to transform book buying into the fastest, easiest, and most enjoyable shopping experience possible; and 2) To sell anything that can be sold on the Web. These objectives are reasonable. However, objectives should be specific and measurable.

Some alternative objectives would be to focus the Company's resources toward achieving profitability by the fourth quarter of 2000 (an annual objective), and to increase profitability by 5 percent per year for the next 3 years (long-term objective). These objectives would give meaningful, measurable goals that management would need to obtain, or it would require management to re-evaluate the Company's objectives or the Company's strategy to achieve the objectives. With the aforementioned objectives in mind, the Companyneeds to implement a strategy to achieve the desired results.

It is necessary to evaluate alternative strategies before selecting the actual strategy to implement. The SWOT or TOWS, SPACE, Grand Strategy, IE, and

QSPM Matrices are tools to help in the evaluation and selection of alternative strategies. The matrices indicate that Amazon is in a strong competitive position, and that the Companyshould build and grow. The matrices indicate that, despite Amazon's financial position, the Companyhas some distinct competitive advantages in a high-growth or unstable industry.

Some strategies for companies that fit this profile are backward, forward and horizontal integration, market penetration, market development, product development and joint venture. One strategy that would fit into the aforementioned categories would be international expansion. Expanding internationally is a market penetration strategy in which a companyintroduces its present products or services into new geographic areas. " As it stands, Amazon. com is well-positioned to remain the world leader in both the development of e-commerce strategy and its implementation" (Balanced Scorecard, p.). There are several advantages to selecting this strategy. For instance, " Amazon has invested heavily in product development in the United States, building a state-of-the-art Web site that is generally considered the best in e-commerce. This technology is highly scalable and has been used for each new market the Companyhas entered. Furthermore, much of the personalization technology and U. S. content has already been created, and can be shared across markets. By leveraging this existing technology and infrastructure, Amazon has been able to keep product development costs low.

Amazon also benefits from certain centralized costs that can be leveraged across multiple markets. For instance, the companydoes not have to hire a new team of engineers for every new market it enters, as it already has a base working out of Seattle. For all of its strengths, the strategy of international expansion does have some weaknesses. For instance, “ In the United States, Amazon built its brand essentially free through public relations and word-of-mouth advertising. Clearly, the companybenefits from its global brand – having shipped products to over 200 countries in the past five years.

However, in Europe, e-commerce has not taken off as much, and Amazon will never be able to replicate the hype and excitement that it received in the United States during the ‘ Internet bubble. ‘ Furthermore, Amazon must spend aggressively in each of its countries because media audiences are less likely to cross borders. Amazon is not in the financial position to spend aggressively to achieve additional revenues, and, even if it were, the additional revenues alone would not help Amazon to reach its objective to achieve profitability.

For this reason, an alternative strategy was selected for implementation. The strategy that was selected was a hybrid strategy of product development and joint venture. A tremendous opportunity for platform monetization exists for Amazon. Amazon has recently entered into two such deals. One deal was with Toys “ R” Us and the other was with Borders Group. Under the terms of the strategic partnership between Amazon and Borders, Amazon will assume fulfillment and inventory for the co-branded Borders. om Web site. Amazon. com will be the seller of record, providing inventory, fulfillment, site content, and customer service for the co-branded site. The new site will continue to offer content unique to Borders. com, including store location information and in-store event calendars. With the announcement of its e-commerce partnership with ToysRus. com in 2000, Amazon launched into an innovative e-business services model that represents a win-win scenario for both Amazon and its retailer customers.

As in the case with ToysRus. com, the Company has leveraged its core assets to provide three critical components of a successful e-commerce strategy to retailers, including: (1) a scalable and proven e-commerce technology platform, (2) marketing capabilities in terms of access to 30 million e-commerce buyers at Amazon, and (3) outstanding back-end products fulfillment capabilities (that represent one of the Company’s core differentiators versus competitive e-commerce distribution capabilities).

In turn, retailers typically enjoy similar core competencies in their land-based retailing business, namely merchandising, pricing control and inventory risk. As with the ToysRus. com relationship, both companies leverage the strengths of their respective business models to share in the costs of conducting e-commerce. In this regard, ToysRus. com has the potential to lower its timing to breakeven earnings in its e-commerce business, while Amazon has the potential to scale the number of e-commerce orders through its fixed-cost distribution network, thereby increasing the likelihood of breakeven earnings.

For a company that is built on technology, ironically, Amazon is no shoo-in to win over retail customers that want to outsource their Web sites. It’s competing against some heavy-hitters, including IBM Corp. and Microsoft, all of which have a head start on Amazon and the advantage of being independent and not a rival retailer. And in the portal business, Amazon is just as vulnerable. In time, they'll likely precipitate a bidding war over retailers for their sites.

Amazon management declined to discuss specific retail partner complaints or the performance of Amazon Services. But in past interviews, Amazon executives have pointed to a weapon that, they say, trumps any concerns about the company's ability to succeed at its new strategy: 35 million active customers who, according to Forrester, spend 10 percent more online than the average of all online shoppers. That's a powerful card to play, because it gives partners an instant audience for their products, with no significant promotional efforts on their part, Bezos claims. Amazon Services offers retailers the opportunity to tap into our industry-leading shopping experience," Amazon's chief says. " These retailers can grow their online businesses faster and less expensively by taking advantage of what we've learned. " As for the somewhat skittish relationships with retailers, Amazon executives dismiss the problems as growing pains. " It's in the early stages of development," says Owen Van Natta, Amazon's vice president of worldwide business development. We've proven that we get successful over time. " He and Bezos point to the continuous introduction of new technologies??? from 1-click checkouts and personalized recommendations to the recently launched Search inside the Book, an option that lets people search for books by phrases or words contained in them??? as Amazon's greatest skill. That focus on new technologies and innovation, says Bezos, " drives customer experience" and ultimately is the competitive advantage that ensures its success. The role of IT Growth is core to Amazon. om's business strategy, and that has had a significant impact on the way they use technology: growth through more categories, a larger selection, more services, more buying customers, more sellers, more merchants, and more developers, increasing the different access methods, and expanding delivery mechanisms. The impact has been on many areas: larger data sets, faster update rates, more requests, more services, tighter SLAs (service-level agreements), more failures, more latency challenges, more service interdependencies, more developers, more documentation, more programs, more servers, more networks, more data centers.

A large part of Amazon. com’s technology evolution has been driven to enable this continuing growth, to be ultra-scalable while maintaining availability and performance. The biggest success has been that Amazon. com has become a platform that other businesses can benefit from. Making Amazon. com a general platform for e-commerce operation has been made possible through their advanced technology investments and it has become a major success. Making Amazon. om available through a Web services interface to any developer in the world free of charge has also been a major success because it has driven so much innovation that they couldn’t have thought of themselves. The main drive behind Amazon. com’s IT agenda is the need to reduce costs while maintaining customer satisfaction and product quality. Amazon. com’s technology is a big reason for its success in building a brand name with immediate recognition among consumers as it continues to expand product lines. It was technology that made Amazon. om a hero among consumers when it was able to deliver its order in time for Christmas in 1998 because of its IT systems for distribution, something many companies failed to do. Further, the company has recently implemented a new inventory control system which led to a $39 million right down in the fourth quarter of 1999. *What advice would you give to Jeff Bezon*? Increase the expenditure in the research and development area. Increase its word-of-mouth advertisement Continue expanding its product lines Further expansion of Amazon. com mostly to the developed countries