

# Amazon analysis assignment



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Amazon is an American electronic commerce company that has become an icon of internet business. Jeff Bezos founded the company in 1994 and launched it online in 1995 as an online bookstore. However, the logo soon became symbolic as they started to sell everything from A to Z. Time magazine names Bezos “ 1999 Person of the Year” and said, “ Bezos’ vision of the online retailing universe was so complete, his Amazon. com site so elegant and appealing that it became from Day One the Point of reference for anyone who had anything to sell online. I. Strengths and Weaknesses Strengths ” Amazon was built in Seattle, WA because it had a large pool of technical talent, little or no sales tax and close proximity to one of the largest book wholesalers. These three characteristics were conditions Bezos used in selecting a location and continue to be strengths to this day. Jeff Bezos has proven to be a charismatic leader who started out by insisting on hiring the brightest, most intelligent and versatile young people whom could share his vision and were willing to work to achieve it.

By doing so, his company has created innovative software and programming that they have been able to patent. The company has proven itself flexible in an ever changing e-marketplace, going from selling books to selling everything including their own services. By far, their greatest strength is the successful achievement of their goal to provide the best customer service.

According to the American Customer Satisfaction Index’s fourth-quarter 2007 survey, Amazon was the Customer Service leader among e-tailers.

Customer Relationship Management (CRM) and Information Technology (IT) support Amazon’s business strategy. The company carefully records data on customer buying behavior. This enables them to offer to an individual

specific items, or bundles of items, based upon preferences demonstrated through purchases or items visited. Bezos stated “ Personalization is like retreating to the time when you have a small-town merchant who got to know you, and they could help get you the right products. The right products can improve your life, and the wrong products detract from it.

Before the era of mass merchandizing, it used to be that most things were personalized. The purpose of ... customization is ... you get the economies of mass merchandizing and the individuality of 100-years-ago merchandising. Another goal that turned into a strength for them is frugality; they are very operationally lean. Amazon is a huge global brand. It is recognizable because it was one of the original dotcoms, and it spent its first 5 years sacrificing profitability for market share. However, it has proven to be a profitable corporation.

Calendar Years Ended December 31,    (In Millions)   2007
2006   2005   2004   2003   2002     Net sales   \$ 14, 835   \$ 10, 711   \$ 8, 490   \$ 6, 921   \$ 5, 264   \$ 3, 933     Cost of sales   11, 482   8, 255   6, 451   5, 319   4, 007   2, 941     Gross profit   3, 353   2, 456   2, 039   1, 602   1, 257   992

Weaknesses - Labor relations has become a major distraction for Amazon as its distributions centers are looking to unionize and Amazon has come out against it. There are even allegations they laid off or intimidated workers looking to unionize. Due to the collapse of so many dotcom companies, it is critical that companies show security and stability. Amazon has made some costly moves; Toys-R-Us relationship terminated after lawsuit, Amazon. com Auctions failed to chip away at Ebay’s success, a Sotheby’s/Amazon partnership called sothebys. amazon. com failed, and zShops which replaced <https://assignbuster.com/amazon-analysis-assignment/>

Amazon Auctions also failed though it did lay the ground work for Amazon Marketplace.

One of its customers' favorite features is its reviews which have taken great criticism recently due to a glitch in their review system that showed many authors writing glowing reviews of their own works and critical reviews of others as well as several top reviewers refusing to continue doing reviews citing Amazon's refusal to enforce the rules of their forums and spamming. Another big weakness is their significant indebtedness. II. Opportunities and Threats Opportunities " Amazon's biggest, most recent opportunity is Kindle. It is a purpose-built reading device with wireless access to more than 170,000 books, blogs, magazines, and newspapers.

The wireless connectivity isn't WiFi—instead it uses the same wireless network as advanced cell phones, which means it works when you're at home in bed or out and moving around. You can buy a book directly from the device, and the whole book will be downloaded wirelessly, ready for reading, in less than 60 seconds. It has a paper-like electronic-ink display that's easy to read even in bright daylight. It's thinner and lighter than a paperback, and can hold 200 books. When first released, it sold out in 5 ? hours. Amazon also recently launched Unbox, online video on demand service, and Amazon MP3, selling downloadable tracks that does not use DRM (digital rights management). As of January 2008 they are the only store to sell DRM-free music from all Big 4 labels; EMI, Universal, Warner Bros. Records, and Sony BMG.

MySpace will sell the product in competition with Apple Inc. iTunes. Amazon is also launching WebStore which allows businesses to create e-commerce websites using Amazon technology. They are also using their subsidiary IMDb which will allow free viewing of current television shows and movies as well as some classics. They are even showing some season premieres before they air on regular television. Amazon is also releasing new computing technology such as S3 Storage and Cloud Computing. Threats " Government regulation of the internet and e-commerce is evolving and unfavorable changes could harm businesses such as Amazon. These regulations and laws cover taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, electronic contracts and other communications, consumer protection, the provision of online payment services, unencumbered Internet access to services, the design and operation of websites, and the characteristics and quality of products and services. Unfavorable regulations and laws could diminish the demand for products and services and increase cost of doing business. Additionally, taxation risks could subject Amazon to liability for past sales and cause future sales to decrease. Currently, U. S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet.

However, a number of states, as well as the U. S. Congress, have been considering initiatives that could limit or supersede the Supreme Court's position regarding sales and use taxes on Internet sales. Another weakness comes with the recent popularity of the concept of a frequency distribution referred to as " The Long Tail", a phrase coined by Chris Anderson to

describe the niche strategy of businesses, such as Amazon or Netflix, that sell a large number of unique items, each in relatively small quantities. Many of Amazon's current and potential competitors have greater resources, longer histories, more customers, and greater brand recognition.

They may also secure better terms from vendors, adopt more aggressive pricing and devote more resources to technology fulfillment and marketing. As many competitors following "The Long Tail" theory that the total volume of low popularity items is exceeding the volume of high popularity items, competitors may enter into business combinations or alliances to take over part of Amazon's market. An example of a power law graph being used to demonstrate ranking of popularity. To the right is the long tail, to the left are the few that dominate (also known as the 80-20 rule). Another possible threat comes as Amazon is rapidly and significantly expanding global operations, including increasing product and service offerings and scaling infrastructure to support retail and services businesses.

This expansion increases the complexity of our business and places significant strain on management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. Failure to manage growth effectively could damage reputation, limit growth and negatively affect operating results. Finally, there are always companies and individuals working to create the next greatest software or internet innovation. III. Strategic Factors Facing Amazon Amazon is facing five critical strategic factors.

- Concentrate as persistently as ever on customers and customer service.
- Investment decisions must reflect long-term considerations rather than short-term profitability considerations.

Bezos stated, “ There is more innovation ahead of us than behind us, and to that end, we are committed to extending our leadership in e-commerce in a way that benefits customers and therefore, inherently, investors — you can’t do one without the other. Some of these bold investments will pay off, others will not, but we will have learned a valuable lesson in either case. ” • Focus on cash if forced to choose between optimizing the appearance of GAAP accounting and maximizing the present value of future cash flows. This will be even more critical with the downswing in the economy and possible impending collapse of the banking industry. • Continue to practice frugality. Must relentlessly emphasize a cost-conscious culture. • Focus on hiring and retaining bright, versatile, and talented employees, and weight their compensation to significant stock ownership rather than cash.

Bezos predicted ...” our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner. ” IV. Core Competencies One of Amazon’s strongest core competencies is customer service with its ease of shopping online, range of products, simplification of ordering, rapid fulfillment and shipping, and data mining to provide customers with suggestions of future purchases. Another core competency is its brand recognition and reputation. V. Distinctive Competencies “ By being one of the first companies to go online and embrace the idea of taking orders through a web site, Amazon. om enjoyed a tremendous first-mover advantage, which it continues to enjoy today. ” (Collins, Mockler, & Gartenfeld, 2006) From their IT infrastructure, Amazon has developed three distinctive competencies. One of its first distinctive competencies came with

the development of 1-Click Ordering method which allowed its customers to store their billing and shipping information on the company's web site. In turn, it allowed Amazon to use data mining software to develop profiles of a customer's buying habits what would help it develop future product recommendations and marketing programs. Amazon next developed the "affiliate program" or "associates program" which is an internet-based customer referral system.

The Associates Program is a great marketing tool for publishers, vendors, and other merchants who sell products on the Amazon platform. Finally, Amazon has a distinctive competency with its Amazon Web Servicing (AWS). AWS has provided companies of all sizes with an infrastructure web services platform in the cloud. With AWS a company can requisition compute power, storage, and other services" gaining access to a suite of elastic IT infrastructure services as a business demands them. AWS utilizes Amazon's other innovations such as Elastic Compute Cloud, Simple Storage Service, Simple Database, and Simple Queue Service. VI. Keys to Amazon Success

There were several keys to Amazon's success starting with a charismatic leader that was able to hire some of the brightest IT talent and have them share his vision. He then built that business on two values: frugality and customer service. Even after being ranked number one in customer satisfaction and service, he relentlessly worked to improve. Another key to Amazon's success was Bezos' decision to forego early profits to secure market share. As a result, they are one of the most recognizable online retailers. He looked at the long term profitability and never lost sight of his goal. VII. Considerations for Future Success Amazon is facing some tough



planning. It must develop alternative incentives should new laws and regulations apply taxes, restrict data mining, and further regulate internet purchasing. They must also find new services to highlight should the One-Click patent be overturned. They must have alternate plans in place depending on the success or failure of their newest launched services and innovations as discussed above to determine if plans need to be revised and goals set are not being met. As Amazon continues to expand globally at such a rapid pace, they must ensure they have enough workers to handle the increased load as well as adequate distribution centers and customer service centers. Staffing will be another critical area for Amazon's future success. They must come to an agreement with their employees over unionization.

They must continue to recruit and retain the brightest, most intelligent and innovative thinkers to help them continue to lead in IT infrastructure capabilities. They must also try to improve on retaining lower level employees that currently have a 40-60% annual turnover. They must also orient and train existing managers on entering different global marketplaces. Leading is where founder, Jeff Bezos, excels with his managers. However, Amazon must find a way to have that inspiration continue down the line. This will become even more crucial as the company expands and splinters off. The farther people are from the original vision the harder it becomes to keep focused on it.

With a company that depends on lean operations and frugality, having the support of its employees becomes dire and one of the top functions of a supervisor. Finally, in the ever changing, rapidly advancing world of technology and internet business, corporations must focus on controlling to

ensure that actual performance is lending itself to the intended performance. Amazon must have distinct measurable benchmarks by which to gauge success as it launches its many new products and services. If one of them is failing, the company must react quickly to either take corrective action or drop it before suffering big losses. Amazon.com is in the right place at the right time. Generation Y, a population rivaling the Baby Boomers, is entering the work force and market place.

They are the computer generation. Shopping online to them is second nature, but they also expect ease and high quality. They know what computers are capable of and will be much more critical. Most important, they know the Amazon name and rate it favorably. As long as Amazon stays dedicated to being cutting edge, customer service oriented, and constantly expanding available products, they should continue to prove very profitable.

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