

# Amazon's digital business case study

[Business](#)



On one hand, he identified book retailing as an industry segment that could exploit the power of emerging Internet technologies and found the Amazon.

Amazon, which enjoyed several years of tremendous growth, from an online bookstore into an online superstore, expanding the online business from retailing to auctions and marketplaces. He propelled the company through the dot com crash by partnering with traditional retailers and on to being a highly profitable online retailer.

On the other hand, in order to support its rapidly growing and increasingly complex business, he invested heavily to develop state-of-art digital business infrastructure and operations which could provide the best-in-class retailing, fulfillment, and customer service capabilities, but built with rapid growth in mind, the distribution infrastructure provided roughly 70% to overcapacity in late 1999. In early 2001, the company faced tremendous pressures from Wall Street and the company's shareholders to achieve profitability.

From 1997 to 2000, the Gross margin increased from 29 million to 655 million. However, the operating expenses also increased rapidly, from 61 million to 1519 million! The company simply could not make profit! 2.

Trace the evolution of the Amazon. Com business from the company's launch in 1995 to the dot. Com collapse in 2000. How did the company's strategy change over time? How did IT capabilities evolve? What value did it deliver to all stakeholders?

From its online bookstore launch in July 1995 till it went public in May 1997, the company located itself as an online retail bookstore, focused on redefining and enhancing the online shopping experience, including browsing, searching, personalized store layout and recommendations, shipping carts, 1-click shopping, Wish lists and greeting cards. In 1998, the company began aggressively expanding into new product categories and into international markets, becoming an online superstore selling a wide variety of products in over 160 different countries.

During 1999, the company began exploring new business models including auctions and marketplaces. For these new businesses, the company provided software and services but did not assume control of inventory. As such, it played the role of an agent, not a retailer. During early 2000, the company expanded its marketplace business model through a series of equity partnerships with leading online retailers. How did the company's strategy change over time? Within the first six years of its inception, Amazon transformed itself from an online bookstore into an online superstore selling a wide variety of products both nationally and internationally.

Amazon set out with the strategy of becoming "Earth's Biggest Bookstore" and to support its rapid growth it aligned its business model to "get big fast." How did IT capabilities evolve: Capabilities enable a company to execute its current strategy and also provide a platform for future growth. Amazon used its IT capability as a powerful tool to enable operational cost savings, revenue growth opportunities, drive asset efficiencies and to create for itself a sustainable advantage.

Stage I: Using IT to drive cost savings: Amazon used IT to control and bring down its raising fulfillment costs by computerizing and interconnecting even the notoriously labor-intensive activities like picking and packaging. Stage II: Using IT to drive revenue growth: Amazon used IT to create business intelligence to get to know its customers, markets and competition better and leveraged this capability to increase its revenues by attracting more customers and also by increasing the per customer purchase value.

Stage III: Amazon created for itself a unique asset base comprising of its brand, customer relationships, the technical and fulfillment infrastructure, and leveraged it to create for itself a capability that could not be easily imitated by its competitors : online and traditional) or new entrants. Stage Ib. Using IT to create sustainable advantage: Amazon's digital business Infrastructure, which linked its customer facing processes to its backend processes, helped it create a sustainable advantage for itself which served as an entry barriers for competition.

The IT enabled commerce platform that Amazon built for itself is the key to its success. Ere value it delivered to all shareholders is its brand, customer relationships, technology, understructure, atlantics strength, people, and leadership in the dot com industry At the heart of Amazon's value proposition is the fact that it leveraged its existing IT system and transformed it into a commerce platform, and this allowed Amazon to pursue new IT enabled strategic growth initiatives.

In this process Amazon created ' alee for all its stakeholders. Customers: Amazon's sophisticated browsing experience with enhanced search

capabilities, wish list, recommendations, shopping carts, one click shopping, personalized consumers shopping experience. Industry: Amazon's business concept not only helped Amazon grow, rather it developed a value network for all the industry participants. Amazon's adoption of digital business capabilities compelled the retail industry to adopt and grow, or at least consider the new business model.

Shareholders: In the early years, since Amazon had fewer physical assets, its asset remover was extremely high.

As Amazon. Com began investing in its IT infrastructure and distribution network it increased its asset base and therefore had to look for new avenues to increase its revenues and to fuel its evolving business model. 3.

Do you degree with the decision to pursue the Toys " R" Us deal? Support your decision with case specifics. Why did Amazon.

Com do the deal?

Should Amazon. Com do more deals like this? What impact does the Toys " R" Us deal have on the Amazon. Com business model in early 2000? Agree with the decision to pursue the Toys " R" Us deal. Amazon. Com found that its digital business infrastructure was a proprietary asset that would provide sustainable advantage, while supply chain, inventory management, and order fulfillment processes were difficult to efficiently scale across diverse range of products. The dot.

Mom stock market crash exacerbated the company's problems and, by mid-2000, many of its online retail partners had declared, or were heading

toward, bankruptcy. This caused Amazon. Com executives to reevaluate the company's business model. Rather than partner with dot. Com tillers, attention shifted to traditional retailers that wished to develop online retailing capabilities and to upgrade their traditional distribution and fulfillment capabilities to enable the end-to-end visibility and speed required when doing business online.

They should do more deals like this. " R" Us deal enabled the company to explore a new business model as a logistics services provider (Toys " R" Us would maintain control of product sourcing and marketing, as well as ownership of inventory) as it simultaneously expanded into new market (traditional retailers) with its existing online retail product. . Consider the challenges facing the company. As a member of the Amazon. Com board of directors in 2001, what actions would you take?

Two of the biggest challenges that Amazon faced in early 2001 were whether it's new ' infrastructure services" model could develop into a competitive advantage that would be difficult to imitate by the competition and how to guard itself from increasing competition from traditional retailers.

One way to deal with competitive threats from traditional retailers is to build an alliance with them. Amazon should continue to expand in the traditional retail arena by attracting more retailers to sell to their products using its commerce platform.

Teaming up with traditional retailers would require a delicate balance as it is important that this alliance between Amazon and its retail customers represents a " in-win scenario. This will help Amazon use its fixed cost

<https://assignbuster.com/amazons-digital-business-case-study/>

distribution network to capacity thereby increasing its benefits of scalability. Further it would allow Amazon to leverage its capabilities, increase revenues and develop its commerce platform into a strategic advantage that would be hard to imitate by new entrants or by traditional retailers.