

# Amazon.com case study 3

Business



Case Study Chirag P. Gandhi Introduction During 1994, a man, Jeffrey Bezos, who after completing graduation from Princeton University was hired by D. E. Shaw, a Wall Street firm. During his occupancy there he was astonished to learn an interesting statistic on the Internet. Bezos had learned that the Internet was growing at the rate of over 2300%! Bezos was no fool; he quickly decided to venture out of D. E. Shaw to create a new company. Bezos made a list of items that he could potentially sell on the Internet in which he narrowed down to books.

Bezos then moved to Seattle, WA for its proximity to high tech work force as well as being in reach of large book distributors. Not only that but because of high sales tax in larger states like New York and California, Washington seemed perfect to conduct business. Initially, Bezos and his software engineers worked in a garage with desk built out of doors and held meetings at Barnes and Nobles. During this time period Bezos worked on developing funds and working with the engineers at that time website named Cadabra. com, but because of the similarities to the word cadaver Bezos renamed it to what is now named Amazon. com, after the world's largest river. The website was officially launched in 1995 and did not take long to become popular. The website was so hot that it earned a spot on, at that time, Yahoo's "What's cool list?" When the site first began it only carried close to 2, 000 book titles at the Seattle warehouse compared to Barnes and Nobles inventory, which had retail outlets in a majority of cities.

Having warehouse inventory was not a big concern for Amazon because the orders were directly placed through vendors. Amazon.

com used JIT (Just In Time), when the order is placed it then is conveyed to wholesalers and publishers who mail the customer the product, to place orders. Bezos realized that the company was on verge of being a success because within a month time the online retailer had sold products to all 50 states and 45 countries, all due to the phenomenal Internet.

Bezos could not work out of his garage and so they needed an office where they can handle customer support, shipment, and receiving area. Seeing that selling only one product was not going to cut it, Bezos wanted to diversify with a vast majority items from music, videos, computer software, hardware, apparel, toys, and more. As a business strategy Bezos believed in “customer-centrism” and had three goals. The first goal, of the founder of Amazon.

com, was to be earth’s friendliest company, second was to innovate in behalf of customers, and the third was to individualize the store for each customer.

Bezos has not shied away from his goal so much so that he includes the first letter sent out to owners in 1997 so that they know that the owners know that the company’s major idea is to satisfy the customers, and the customers have loved the company with many repeat customers. Amazon.com was so good with their customer service that in 2001 they spent seven dollars per customer to acquire new customers while the average was 123 dollars. The company was doing so well that in less than three years after its launch it went public. Amazon had an IPO (Initial Public Offering) of three million shares of common stock.

The company's success was extraordinary but Wall Street was concerned that Bezos customer-centric instead of focusing on market share. Not only that but the "dot-com crash" during the late 90s and early 2000s concerned investors even more but also Bezos remained focused. Websites were declaring bankruptcy left and right so in order to remain in the game the company started cut costs. Bezos laid off 1,300 employees as well as shut downed a distribution center, then gave discounts on a vast majority of products, and not only that but the company inked deals with America Online, Inc and Target corp.

These changes led to the first net profit of \$5 million, which many thought would be darn impossible for E-commerce company.

Since then it has further flourished, in 2009 net sales was \$24.51 billion, which is 15 times higher than net sales ten years ago when they were \$1.64 billion in 1999. More customers are taking advantage of Amazon Prime, a membership program that gives unlimited fast shipping for an annual membership fee of \$79, with worldwide memberships up significantly over last year.

Also, recently Amazon purchased Zappos, a leader in online apparel and footwear sales that strives to provide shoppers with the best possible service. Not only that but Amazon's own product Kindle is the number one bestselling item for two years running. It's also the most-wished-for, most-gifted, and has the most 5-star reviews of any product on Amazon. Amazon's competitors have changed with time. During the early years of the company the competitor was primarily Barnes and Noble and to a certain extent small

book shops, which could not keep up with the large book stores that offered more square footage and variety of books.

The large bookstores then added coffee shops to their stores, which changed from being a retail activity to social gatherings. Neither retailer could not match the browsing through thousands of books the way Amazon did with its search engine. Later competitors did add ordering feature. In order to separate themselves from book competitors they added other online items to the website - selling everything and offering everything. The industry that they are in, according to Yahoo! Finance is the Catalog & Mail Order Houses that includes firms like Ebay, LiveDeal, HSN, Borders, and twenty-five more firms.

The industry itself has been pretty average; from February 2010 to June 2010 the industry did very well, gained as much as 15%, but August was disastrous the industry dropped below 20% but has come back strong during September and October. SWOT Analysis Year over year, Amazon. com Inc has been able to grow revenues from \$19. 2B to \$24.

5B. Most impressively, the company has been able to reduce the percentage of sales devoted to cost of goods sold, SGA expenses and income tax expenses. All of these improvements led to a bottom line growth from \$645. M to \$902. 0M. This company's debt to total capital ratio, at 6.

96%, is in-line with the Internet and Catalog Retail industry's norm.

Additionally, even though there are not enough liquid assets to satisfy current obligations, Operating Profits are more than adequate to service the debt. Accounts Receivable is typical for the industry, with 13. 51 days worth

of sales outstanding. Last, inventories seem to be well managed, as the Inventory Processing Period is typical for the industry, at 34.

33 days. BusinessWeek) According RBC Capital analyst Stephen Ju, Amazon Inc could be responsible for close to a third of all US e-commerce transactions, but Amazon isn't so fantastic according to Forbes' YCharts.

YCharts, an online financial website, believes " Amazon has a fat market cap but razor thin margins. " Since Amazon does not have a considerable amount of profits, its P/E ratio is about 70, based on trailing earnings. Which in turn is higher than Amazon's growth rate.

The company's top-line growth is reason why the stock price is so lofty. Amazon may have great revenue growth but with the teepness of its expenses is also considerably high. This are about the same margins found at other discount retailers. One of the reasons why costs at Amazon are so is because of a lot free postage. Net shipping costs, the items Amazon pays to ship subtracted from the amount it collects from customers who pay for shipping, increased to 3. 95 during the first 3 quarters of this year, an increase from 3.

3% a year earlier. For customers this is ideal, but as a business it is not very profitable. Nonetheless, Bezos is achieving his goal of customer satisfaction.

Recently, the state of Texas sent a large bill to Amazon for unpaid sales tax from December 2005 to December 2009, worth \$269 million. During early part of the decade theSupremeCourt had exempted a lot of e-commerce from sales taxes, but since the government has been in much financial

trouble it feels online transactions could be good steady revenue. The addition of sales tax could jeopardize Amazon's income substantially, which would make it less competitive. Amazon's stock price has steadily increased a lot, from close to \$50 a share in November 2005 to close to \$120 in November 2009.

Amazon hasn't bought a single stock back in 2009 or the first 3 quarters of 2010, is a rare company that recognizes that its stock is no bargain. This is proved during the acquisition of Zappos, by Amazon, close to \$850 million last year, Amazon purchased it entirely with its high stock price.

Strategy Issues The room for expansion is very limited. Some countries, which are very strict on the contents that are provided on the Internet, may not allow for Amazon to sell its products into that region. Expansion may take place internally.

Amazon can upgrade the website with software like the Amazon EC2, a web service that provides resizable compute capacity in the cloud, or create more technology similar to the Kindle, which is a very popular platform to reading books on a tablet. Besides these two points, Amazon continues to team up with third-party vendors and expanding its range of products, which are already significantly diversified.

One of the biggest threats to AMZN is competition. Competition is from a lot of firms including Wal-Mart, Target, e-Bay, and practically any retailing store or e-commerce. Another possible threat to the company is the U.

S. government. As mention earlier states, like Texas, may start charging sales tax to once tax exempt online commerce company.

Not just laws in the U. S. but also around the world wherever the company sells its products. Different countries have different regulations and taxes that may be difficult to comprehend; as well as keeping the culture and or the people of the countries sensitivity intact. E.

g. in India, where there is a vast majority of Hindu population selling beef products would not be appropriate, or a country like Iran where the majority of the population is Muslim you may not want to sell pork products.

These threats are very important because if not properly handled then Amazon, which already had razor thin profit margins, could lose significant amounts of money. Recommendations Amazon. com, Inc like all firms is not perfect but it has the capability to make them near perfect. First things that I would suggest doing would be to issue stocks.

One of the things that would happen would be that the price of the stock would drop, some may think that the price drop would be something to be concerned about, which would be true if the price of the stock dropped on its own, but the stock's price is dropping due to the issuance of new stock.

With the lower stock price more people would be able to purchase the stock and possibly in more quantities that would help the company be more customer friendly, by that I mean more people can afford it. Another reason why the offering would help is because it would create more cash for the company that it can use to pay the sales tax that has become an issue or acquires more beneficial firms. The main goal of the firm is to be the earth's friendliest company, but in order remain a company Amazon would need to



find income from other means. A possible way would be to open up retailing stores.

This would be an experiment, and to see how well it works I would open one store in a mall and possible expand to other metropolises, if the initial store would work.

That may cut from its online business but would try and incorporate the same customer friendly experience that the website has. In the stores you would only want to sell limited amount of items, since the store would be in a mall (size of anAppleStore), like books, CDs, DVDs/Blu-Ray, Kindles, and sell items that may not be regularly sold in stores that are sold on the Internet.

Also, any local vendor that would want to sell his/her item in the Amazon store would be able to do, if permissible of course. When expanding to other countries the best way to have success is to have an in depth analysis of the likes and dislikes of the country, and according to that sell items that that country would be pleased with.

Laws and taxes are unavoidable, a good way to deal with it would be a) create a branch office in that country where they keep in track of the issues and b) try and work with the government there and see if it would be bendable for the company to be exempt from sales tax.

In the world of Internet competition is inescapable. Amazon has done very well job of competition, it was the first to launch an e-book reading device and one of the best online websites where you can find everything and buy anything. If Amazon continuous the pace it will always be a high-ranking firm, when compared to other similar firms. One thing that I would suggest

would be to try and stay as innovative and user friendly as possible because it's drawn in a lot of people and will continue to redraw those customers.

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