

<Student Name>
Amazon Case Study
Integrative Business Strategy
Professor Shultz

1. Amazon.com, Inc.

- a. Frank T Rothaermel & Michael McKay
- b. <Student Name>
- c. November 8, 2018

2. Executive Summary

This report is intended to analyze Amazon's business model and to understand its strategy on how to compete with existing competitors such as Google and Alibaba. In addition, there is a focus on an external analysis of the company that includes discussing how the Five Forces Model and PESTEL Framework influence Amazon's decision-making in the market. Furthermore, internal analysis is also used to uncover which core competencies give Amazon a competitive advantage in the marketplace. Amazon's ability to use its resource efficiently to produce one of a kind products and services will also be reviewed using the Resource-Based View method. Lastly, VRIO Framework will give insight to what truly makes Amazon a great company that is one of the top 5 most valuable, and also innovative, companies in the world.

3. Introduction

Amazon is one of the world's most valuable company with its CEO, Jeff Bezos being the wealthiest man in the world ahead of Microsoft founder, Bill Gates. With its online retail domination, Amazon has been able to diversify its portfolio by expanding into video and gaming stream, entertainment with its own original content, and also into the grocery industry with its recent acquisition of Whole Foods Market in 2017. With intense competition arising from competitors such as Facebook, Alibaba, and Google on multiple fronts, Amazon faces a challenge to maintain its market share and its competitive advantage.

4. Background

Amazon has become a leader in several industries such as shopping, entertainment, and cloud services. This can be attributed to the company's forward-thinking mentality and the willingness to take calculated risks that work more often than not. A few events in Amazon's history has influenced their business model and how they want to differentiate themselves from other companies. The introduction of the Amazon Kindle in 2011 essentially put any doubts aside on whether Amazon was still a "book" company. The Kindle gave Amazon an advantage over its main competitors at the time, Barnes & Noble and the now defunct- Borders. Also, Amazon Web Services (AWS) have been fundamental in the company's growth as their entire business has been

structured around this service. Lastly, Amazon's competition with companies like Facebook, which rely heavily on ads to generate revenue, have created their own ad network that will allow them to target customers that match with preselected criteria. An industry that generates billions of dollars a year and no decline insight has incentivized Amazon to venture into the advertisement industry. These significant events in Amazon's history are relevant because they have and will continue to be the core of Amazon's growth. With more companies shifting to an online presence, new competitors entering current markets, and new technologies being developed by Google, Apple, and Facebook pose as threats to Amazon's market value and growth potential. This analysis of Amazon will provide information on how Amazon can compete with the biggest tech companies in the world.

5. Problem Definition

The most concerning issue for Amazon is how to continue to provide value to its customers and fend off disruptors that challenge their presence. With Facebook streaming live television through their platforms and Google having success with their smartphone, the Google Pixel (unlike Amazon's ill-fated Fire smartphone, and Apple's billion-dollar gold mine that is iTunes, Amazon must continue to innovate and push its own boundaries to have any long term impact in the tech industry as well as others that it is attempting to disrupt such as the Supermarket and Grocery Industry.

6. Discussion

- a. External Analysis
 - a. The Five Forces Model (cover all 5 forces)
 - i. *Competition in the Industry. High.*

Competition has become very stiff in the industries in which Amazon has interests. Facebook and Google are the big players in the advertisement industry with Apple and Google being its main competitors in the virtual assistant and the subsequent hardware space. AWS, Amazon's cloud-based service, has been a solid foundation on which the company built its platforms on. However, with IBM, Microsoft, and Google competing in for market share, Amazon faces strong competition with plenty of resources to go toe-to-toe with the online retail giant. Lastly, Amazon's bread-and-butter also faces challenges to remain the dominant force in the industry. Its disruption in the online retailing industry has influenced how consumers shop, but also it forced other companies to react. Wal-Mart now offers two day free shipping without paying for a subscription, with other retailers offering free to-store shipping.

ii. Potential of new entrants. Low- Medium.

Established companies and online sites like eBay, Facebook, and Craigslist offer similar buyer/ selling already the market has become saturated. The new trend in this space is offering the same services but at a lower cost. Apps like LetGo, Etsy, and Pinterest have offered a new way to sell and buy just about anything for low costs. However, what offers Amazon its competitive advantage, is its Same-Day or Two-Day shipping and its ability to house large inventories and maneuver product from one facility to another with great efficiency. New entrants to this industry must be able to offer 3 main core services: fast shipping, low purchasing/ selling costs, and large selection of items.

iii. Power of Suppliers. Low.

The power of suppliers is relatively low because Amazon does not rely on a few suppliers but hundreds, if not thousands of sellers that want to reach a broader customer base. Since Amazon's core products (AWS, Amazon.com, and Prime Video/ Kindle) are online, it does not have as much dependency on suppliers as brick-and-mortar companies would.

iv. Power of Customers. High.

In contrast with Power of Suppliers, Amazon's main focus is to lure customers away from its competitors in the entertainment (Netflix), online retail (Wal-Mart and eBay), and also the cloud services (Google, Apple, and IBM). The company's main challenge is how to deliver quality products/ services at prices that beat or match at the minimum its competitors' prices, even if it means to sell products at cost (initial Kindle launch).

v. Threat of Substitute Products. Medium.

Amazon's online retail business model is difficult to replicate because of the company's efficiency in inventory and logistics. In recent years, Alibaba has become the main threat to Amazon's wholesale business with Alibaba able to offer customers access to wholesalers and other consumers that sell items from wireless chargers to LED light bulbs. Its Kindle business line has limited competition after the bankruptcy of Borders and sluggish sales of Barnes & Noble's Nook. However, in the cloud based and entertainment industries is where Amazon has its work cut out. With more established tech companies competing for

market share, Amazon's services are more vulnerable to be replaced by consumers than any of its other business lines.

- b. In addition, address:
 - i. Ease of entry

Since Amazon's core business model relies on simplicity, virtual, and efficiency it focuses in industries in which it can make an impact or innovate the current processes. An example of this can be of how it has been able to easily enter the book, entertainment, and cloud services industry. Amazon's businesses run on its technological infrastructure which supports its music/ video content, its ebook library as well as its online retail store. Through its online retail store alone, Amazon has been able to handle apparel, electronics, makeup, and home furniture. Although it does not directly manufacture or produce these items, it has lured customers away from other companies through its superior customer service and efficient delivery process.

- ii. Exit Barriers

As mentioned in the Ease of Entry section of this case study, Amazon has an advantage over its competitors because it does not have a large physical presence. Aside from its pop-up stores, which have encouraged other companies to follow suit (i.e. AT&T), and its distribution centers, Amazon does not have no direct impact on local communities. Most of Amazon's revenue is generated virtually and although there are costs that exist within this realm, it is not as difficult as finding a buyer for their vacant real estate or being concerned that because they shut down a location, several employees are not unemployed.

- b. Internal Analysis
 - a. Core Competencies

- 1. Software/ Cloud Services

Amazon launched its AWS network in 2006 which enables Amazon to offer content delivery, data storage and management. Other services that are built in AWS are billing and payment and networking. This is a core competency for Amazon because it has enabled the

company to generate revenue from large entities both private and public, such as startups and the CIA by “renting server space, storage, and computing capability.”

2. Efficient IT network and services

With its superior network and web services, Amazon’s online retail site is able to handle large numbers of customers, data, and transactions on a daily basis. Its reliable network has seldom crashed or gone offline due to high volume traffic. In addition, through the use of algorithms in its software, Amazon is able to increase sells by suggesting items that the customer may be interested in based on the customer’s shopping history mixed with similar users’ shopping patterns.

3. Customer Service

What allowed Amazon to enter, disrupt, and become a dominant force in the online space was its cutting edge customer service. Initially it started with having a large inventory of books and gradually evolved to having a very broad selection of goods that it can transport easily and quickly to the buyer. Two-day shipping and free books, movies, and music to its Prime subscribers adds value to what Amazon offers its customers for a price that is \$119.99 a year or \$9.99 a month. This price per month, for the value it offers customers, is better than its competitors when we compare it to Netflix’s \$8.99/ month only for shows and movies, Spotify’s \$9.99/ month only for music, while Amazon all of these and more for \$9.99/month.

b. Resource-Based View

Amazon benefits from its intangible assets which include its cloud services and online site- Amazon.com. These two assets allow Amazon to generate profits while maintaining the costs of operating these two assets low. Of course, Amazon does have a team that consists some of the best programmers and IT personnel in the world, but the labor costs is still below those of running brick-and-mortar locations. Also, Amazon’s tangible assets such as its Whole Food locations and distribution warehouses bring additional value to Amazon’s operations. By having a physical location to sell groceries from, Amazon is able to further diversify its portfolio and generate additional revenue. Its distribution

warehouses are designed in a manner that makes these warehouses as productive as possible with millions of packages handled annually.

c. VRIO Framework

Amazon's passes the VRIO Framework because it is able to efficiently use its *valuable resource(s)* to consistently innovate not only current processes implemented by its competitors, but also its own. Continuously improving its distribution process, updating its online catalog, and streamlining the way it connects its retail customers to its other services such as Amazon Music, Audible, and Kindle.

Amazon's business model is rare and is closely imitated by very few companies around the world. Alibaba perhaps is the company that has come close to imitating Amazon's strategy and is the reason why it poses as Amazon's biggest competitor on a global stage. However, Alibaba's lack of diversity in other industries still give Amazon a competitive advantage because it has created multiple streams of revenue.

Amazon holds a competitive advantage over its competitors due to the infrastructure and processes it has implemented and continues to refine as time passes. Other companies have attempted to imitate its strategy but have not yet matched the success that Amazon has. An example would be Walmart's attempt to take customers from Amazon by offering two day shipping. Although Walmart's two day shipping offer resembled Amazon's with the delivery method being available to millions of items, \$35 threshold option for items that do not qualify for two day shipping, and the added benefit that there was no membership fee, the strategy has not lived up to expectations. Reviews on Walmart's new delivery offer have not been a huge success, and the fact that with Amazon's Prime, music/ video streaming and free ebooks still gives the online retailer a great advantage.

The efficient organization that Amazon has been tweaking and refining over the last two decades allows the company to take risks and innovate in established industries while also exploring its own ideas. The one-click payment option, its "buttons" for items that a customer buys regularly, and the software in place that continuously updates a user's buying habits to suggest other similar items have all worked to varying successes for Amazon. The Fire smartphone may not have been a success, but the company's willingness to explore new avenues and try to create new revenue streams contributes to its culture of innovation and forward thinking.

7. Action Taken by Firm

Amazon continues to push the boundaries of what is expected from a company, and although it has not had success in all of its ventures, the company insists on bringing value and innovation in unexplored areas. For now, one of the most intriguing topics things to look at is how successful Amazon can be with Whole Foods and its unexpected decision to open brick-and-mortar locations. Amazon is also piloting a new idea, Amazon Go, a grocery store where there are no registers or no lines for checkout. Instead, Prime customers are able to walk into the supermarket, take items off the shelf, and walk out without paying. Their purchases are automatically charged to their Prime account. Although there are challenges and speculation on how successful this type of store can be and the pressing issue of no jobs being created (or at least not as many, still need stock associates), Amazon is still being attempting to disrupt industries.

8. Results of Overall Analysis and Interpretation of Results

Amazon is a leader in technology, innovation, and supply chain and this case study reinforces this statement. Of course there is always room for improvement, but for a company that has only been around for 24 years, the leaps it has made in its diversification and cementing its place among the most valuable companies in the world is outstanding. Reviewing Amazon's cases study brings to light a lot of what the company is getting right, but it also shows where they can improve in.

9. Your Recommendations (Justify your reasoning)

Areas in which Amazon can improve are its employee culture, video/ music streaming library, and also improve its ecosystem by integrating Alexa and its Echo lineup with its tablets and smart phone. Given that Apple Music and Spotify are the top music streaming apps, Amazon can increase its quality of its own music app by becoming the exclusive streaming service for album releases, similar to Apple Music. A potential opportunity for Amazon is to enhance its Alexa/ Echo lineup by introducing their own tablets and phones with Alexa included as the device's virtual assistant. This will be similar to Samsung's Bixby and Apple's Siri. Amazon has already tried to produce a smartphone to attract new customers, but it turned out to be a flop. Amazon, however, is a resilient company and should focus on implementing their popular Alex/Echo combination in more smart devices. In addition, Amazon can improve its employee culture which has received negative press coverage in recent years. The company is notorious for high pressure and stressful work environments, and being able to offer employees a better working environment will help the company attract and retain the best talent available.

a. How much will your recommendations impact the firm?

These recommendations will definitely bring additional cost to Amazon and put pressure on the company to find efficient and cost-friendly ways to implement these recommendations, but in the long term it will add to the company more value and increase its competitive advantage.

b. Are they feasible?

Yes because all of the recommendations take a product/ service that Amazon already markets and sells but fine tunes them to get the best out of each one.

c. Which recommendations did firm follow?

As of now, none.

10. Conclusion

In conclusion, Amazon is one of the most valuable companies in the world and has achieved this honor by bringing value to its customers through simple but strategically efficient products and services. It will continue to be a major influence in the tech world as well as the economy, but it does fall short on some areas such as its smartphone venture and its working environment. However, these areas where Amazon needs improvement do not affect its revenue and does not put at risk its business model. With the world's most wealthiest man at its helm, Amazon is expected to continue to innovate and push its own boundaries on what it can achieve and offer to its customers.