

Strategic Analysis of Amazon

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November 16, 2017

MGMT 275

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Introduction

As many of us can attest, almost all of us has purchased on Amazon. The saying, “jack of all trades, master of none,” is one that is hardly used to speak of individuals today. My dad tells me stories of my great grandfather who was a builder and did all of his own work—excavating, rough construction, roofing, plumbing, electrical, drywall, masonry, heating, trim work, landscaping, etc. in order to finish a house. As jobs have become more complex, most professions today specialize in one area—teacher, mechanic, lawyer, plumber, accountant, etc.—and that seems like the right way to go. For example, I would not want my father, a teacher, to overhaul the motor on my jeep. However, being a “jack of all trades” in the business world seems to be working very well for Amazon. Amazon seems to be selling just about every product and service anyone can imagine. I do not think many of us have stopped however and thought about how Amazon became what is it today. What makes them tick? What makes them so darn successful? Those are the questions that will be answered within this paper.

Amazon’s History

How did Amazon become what it is today? Well, it started with the founder Jeff Bezos who went from a working man on Wall Street to his own boss (“Amazon Startup Story”). In 1994, web usage was growing at 2,300 percent (“Amazon Startup Story”). The internet revolution was right under his nose, and Bezos noticed. At the age of 30, he quit his job and started his internet company (“Amazon Startup Story”). He made a list of the top 20 products he could sell on the internet and decided on books due to their low cost and the universal demand (“Amazon Startup Story”). His initial start up capital was from his parent’s personal savings (“Amazon Startup Story”). His parents invested in him without ever being quite sure what their son was planning (“Amazon Startup Story”). With their capital and his drive and vision, Amazon.com was born.

Company Summary

When explaining what Amazon does, it might actually be easier to list what they don't do, since they have their hand into everything. For starters it is the largest online shopping website in the world ("What is Amazon? Definition and Meaning"). It sells books, electronics, music, furniture, apparel, collectables, handmade items, and even groceries ("What is Amazon? Definition and Meaning"). They not only sell their own goods, but they have vendors that can sell on their website including new items, used items, or homemade items. Amazon has created a monster of a company that only seems to grow as they bring new ideas to life from Amazon Kindle to the Echo (Overby).

Industry Summary

Currently our economy is growing. We are finally on the way up from the 2008 recession; however, the question asked by everyone is, "if the economy is doing so well why are all these retail companies going out of business?" There are many reasons, but the largest reason involves online marketing and selling online. Electronic commerce (e-commerce) in recent years is the driving force of the retail market ("US e-Commerce market maintains healthy growth"). Companies that cannot compete are falling on their face, and those that are doing great, pick up the slack and move on to become bigger. E-commerce continues to grow, and holds a tight rein on today's retail market. Many large companies, including Amazon and its competitors, power the e-commerce industry, riding this wave of change in consumer demands.

Industry Climate

Healthy e-commerce growth has led to drastic changes in the retail market. In the third quarter of 2016 alone, U.S. e-commerce grew 15.7 percent, making over 101 billion dollars ("US e-Commerce market maintains healthy growth"). A growing change in e-commerce is the change

in purchasing on mobile devices (“US e-Commerce market maintains healthy growth”). In quarter two of 2016, “retail traffic” was mainly done on mobile devices 47 percent of the time, followed by 45 percent on desktop, and 9 percent on tablets (“US e-Commerce market maintains healthy growth”). However, in 2015 when it comes to “retail purchasing” the trend was still dominated by the desktop at 65 percent, while mobile devices lagged behind at 19 percent (“US e-Commerce market maintains healthy growth”). A shift may be in the future though because in 2016 purchases by mobile devices grew to 27 percent while desktop use dropped to 61 percent (“US e-Commerce market maintains healthy growth”). This proves that the industry climate of e-commerce continues to grow; however, the mode of purchasing may be rapidly changing. Appealing to mobile users and making it easier to purchase using those devices rather than just browse is yet again another change in industry.

Major Competitors

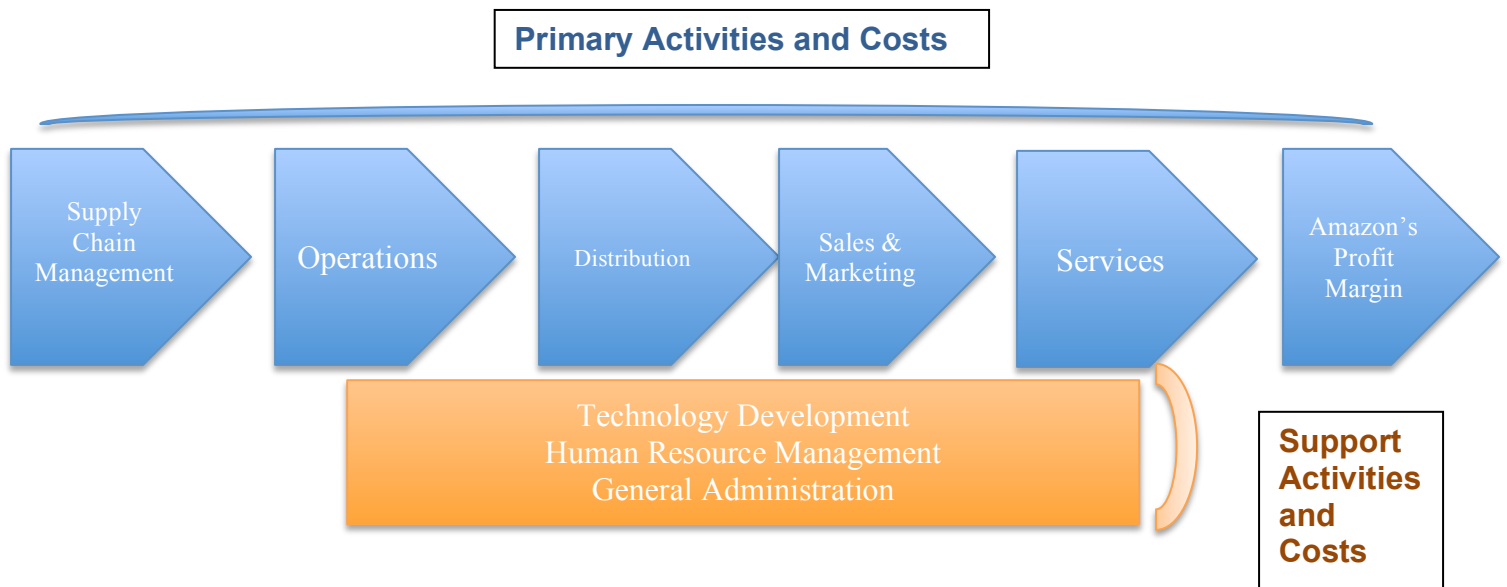
Someone as large and as diverse as Amazon is going to have numerous competitors at all ends of its successful branches. Some of their largest competitors are those in the media segment, electronics, and general merchandise (“Who are Amazon’s (AMZN) main competitors?”). Within the media segment companies like Netflix and Hulu offer competition for its movies and television shows, and Apple and Spotify compete with Amazon in the music sector (“Who are Amazon’s (AMZN) main competitors?”). Amazon has two types of competitors that sell electronics and other merchandise (“Who are Amazon’s (AMZN) main competitors?”). One type are other e-commerce companies like the Alibaba Group, Overstock.com, Wayfair Inc., and Zulily; the other type are brick and mortar stores like Best Buy, Family Dollar, Staples, Target, Wal-Mart, and Big Lots (“Who are Amazon’s (AMZN) main competitors?”). Ebay competes against Amazon for its auctioning and selling of used products. Etsy takes some of the

market share from Amazon particularly that of the vendors selling handmade products and crafting supplies. The figure below represents the five-forces that affect Amazon and how. The five forces being rival sellers, new seller entry, substitute products, suppliers, and buyers.

Five-Forces for Amazon:



Amazon's Value Chain:



Primary Activities and Costs

Supply Chain Management: Amazon's electronics require raw materials, and those are then stored before they are used in operations.

Operations: Many of Amazon's products come directly from a supplier, but some of Amazon's electronics would be part of their operation costs.

Distribution: Amazon has many fulfillment stations in order for customers to receive their packages at a efficient time.

Sales & Marketing: Advertizing and promotions are a must when it comes to being successful in the e-commerce world. Amazon is one of the leading businesses that strive to be an exception in sales and marketing.

Services: Amazon's customer service is superb. They go the extra mile to make sure their customers are happy.

Support Activities and Costs

Technology Development: Amazon is always coming up with new technology ideas to making their e-commerce business more successful.

Human Resource Management: Because Amazon is an e-commerce business, Human Resources are ran slightly different. As they are also global, they require a wide array of jobs.

General Administration: Amazon's headquarters are located in Seattle Washington. That deals with the ins and outs of their business.

Strategic Vision Explanation

Every company should have a strategic vision that encompasses all of their aspirations into one statement. Amazon's vision statement is "To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online." Their vision statement brings up three key points they follow to a T (Gregory). Those being that they are and want to remain customer-centric, they want to be a global company, and they want to continue to carry the widest variety of products that anyone can buy online (Gregory). In the United States I personally feel they are the most customer-centric company, and they have the widest variety of products available.

Mission Statement

Amazon's mission statement is, "We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience" (Gregory). Their mission statement, like their vision statement, touches on many of the qualities they are already succeeding at: striving to have the lowest price, offering the largest selection, and being the most convenient e-commerce site to order from.

Does Amazon follow their Vision and Mission Statement?

Amazon seems to follow their vision and mission statements to the T. They are striving to go global, they have a wide variety of product selection, they make their customers the priority, and they are the most convenient online company to order from. One thing they say in their mission statement that I feel is slightly inaccurate is that they are not always the cheapest price for an item; however, they do offer free shipping unlike most places. Also, they are convenient and anything and everything you are looking for is all on one website.

SWOT Analysis

It is clear that Amazon has many strengths and opportunities, but every business does have weaknesses and threats to their operations. Amazon has many strengths, but three of their biggest are efficient delivery networks, being customer-centric, and their “GLOCAL” strategy (Bhasin). All of us have ordered from Amazon because they are efficient at delivering people’s packages. They have tons of fulfillment centers allowing them to deliver quickly and efficiently. We also have experienced a time when we get an email letting us know something we have been looking at is now on sale, or when we purchase one thing and it gives us a list of items others have bought. This is because they record customer data efficiently and affectively in order to get their customers to purchase more items. They also have a powerful strategy that they use by being global but acting local for people that is referred to as being “glocal” (Bhasin).

All companies have weaknesses. One of Amazon’s weaknesses is their shrinking margin, as more and more companies enter into e-commerce (Bhasin). They have also had a few products flop, which have set them back. Those were the fire phone and the Kindle fire which neither took off as well as they expected (Bhasin). They are also expanding to appeal to more markets; however, they are struggling in developing countries to turn a profit (Bhasin).

Companies are always looking for opportunities. One of Amazon’s biggest opportunities would be to go brick and mortar in order to appeal to the non e-commerce shoppers (Bhasin). Another option is for them to continue to acquire other e-commerce sites in order to decrease competition (Bhasin).

Threats that affect Amazon are local competition and low-entry barriers. In many foreign countries like India, Amazon is having trouble penetrating the market due to other e-commerce retailers that are India based companies (Bhasin). Amazon is also being affected by companies who enter the e-commerce world and are offering cheaper prices on their items (Bhasin).

Competitive Advantages

Amazon throughout the years has found many ways to hold on to the advantage in the very competitive world of the e-commerce market. Amazon holds a 68 percent share of the e-commerce industry (Overby). One of their advantages are their products such as the Kindle and the Amazon Echo (Overby). The biggest advantage Amazon has is their Amazon Prime membership. Amazon Prime is very popular, as it accounts for 5 million dollars in the U.S. alone (Overby). As a member you receive free two-day shipping and free streaming (Overby). Another advantage of Amazon's is that they have many fulfillment centers, which allow for rapid delivery and low shipping costs (Overby). Wal-Mart is one of Amazon's biggest competitors as it just released its free two-day shipping on orders of 50 dollars or more, with lower prices, and are also allowing vendors to sell on their site (Overby). This is a huge hit for Amazon; however, they make up for it for now by being reliable, convenient, and having amazing customer service.

Competitive Strategy

The competitive strategy that Amazon uses is the broad differentiation strategy (Thompson). This means that a company is unique and offers a wide range of products for customers (Thompson). Amazon also uses cost leadership in many ways, such as networking technologies, purchasing and operational processes, and numerous fulfillment stations (Smithson). All of these strategies help eliminate the overhead cost for the company. They also are pushing for intensive

growth through marketing, product development, and diversifying themselves even more than they already are (Smithson).

What's the biggest challenge facing Amazon?

The biggest challenge facing Amazon currently is one that they seem to be working on to alleviate as we speak. They are on the road to finding a solution, but the problem are the roads themselves. No matter how many fulfillment stations they build, how they anticipate a customer's purchasing habits, or work around the clock to fill orders, government roads, shipping ports, airports, and delivery services like FedEx, UPS, or USPS can be roadblocks in the way of making Amazon even more successful (Smithson). Which is why they have been trying to find their way around it. Amazon has been experimenting with drone delivery to get people's packages to make them quicker without the need for using alternative methods of transportation that may just hold Amazon back.

Summary

Amazon is a huge business that was built on the feeling that e-commerce was a growing niche to get into. This business has grown to be very successful and is always growing and finding new ways to grow. In researching Amazon, I realized what exactly makes them tick, and how they have become so successful in the world market of e-commerce.

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Strategic Analysis Paper Rubric			
		Possible	Received
Mechanics	Grammar & Spelling	10	
	Sources cited properly and works cited page included	10	
	Organization – paper is organized in the sections listed in the instructions of the paper	5	
Introduction	Company summary	5	
	Industry summary	5	
	Industry climate	5	
	Major competitors	5	
Strategic Vision & Mission	Strategic vision is explained	10	
	Mission statement	5	
	Do they follow their stated vision and mission	5	
Analysis	Two different analysis tools utilized (five forces, value chain, key factors, etc)	15	
	SWOT Analysis	15	
	Identified the 3 most critical strengths, 3 most critical weaknesses, 2 opportunities, and 2 threats	10	
Competitive Strategy	Competitive advantage identified and evidence provided to support claim	15	
	Competitive strategy identified and examples given of how it is being executed (chapter 5)	15	
	Biggest challenge facing company	10	
Closing	Summarizes what was learned	5	
Total		150150	