



# UNPACKING AMAZON.COM





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# INTRODUCING AMAZON.COM

Mission & Vision, Fun Facts, Employees and Customers

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# Amazon Mission & Vision

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Our vision is to be earth's most **customer centric** company; to build a place where people can come to **find and discover anything** they might want to **buy online**.



# Amazon Fun Facts

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Amazon Warehouses

Fulfillment centers have more square footage than **700 Madison Square Gardens** and could hold more water than **10,000 Olympic Pools**



Amazon.com Logo

Since 2000, Amazon's logotype featured a curved arrow, from A to Z representing that they carry every product from A to Z with an arrow shaped like a smile



Amazon CEO

Jeff Bezos only makes **\$81, 840** per year despite being CEO



Amazon Customer Service

Amazon.com employees spend **two days every two years** working at the customer service desk, even the CEO. This is to help employees understand customer service



*Did you know:*  
all these companies belong to Amazon...

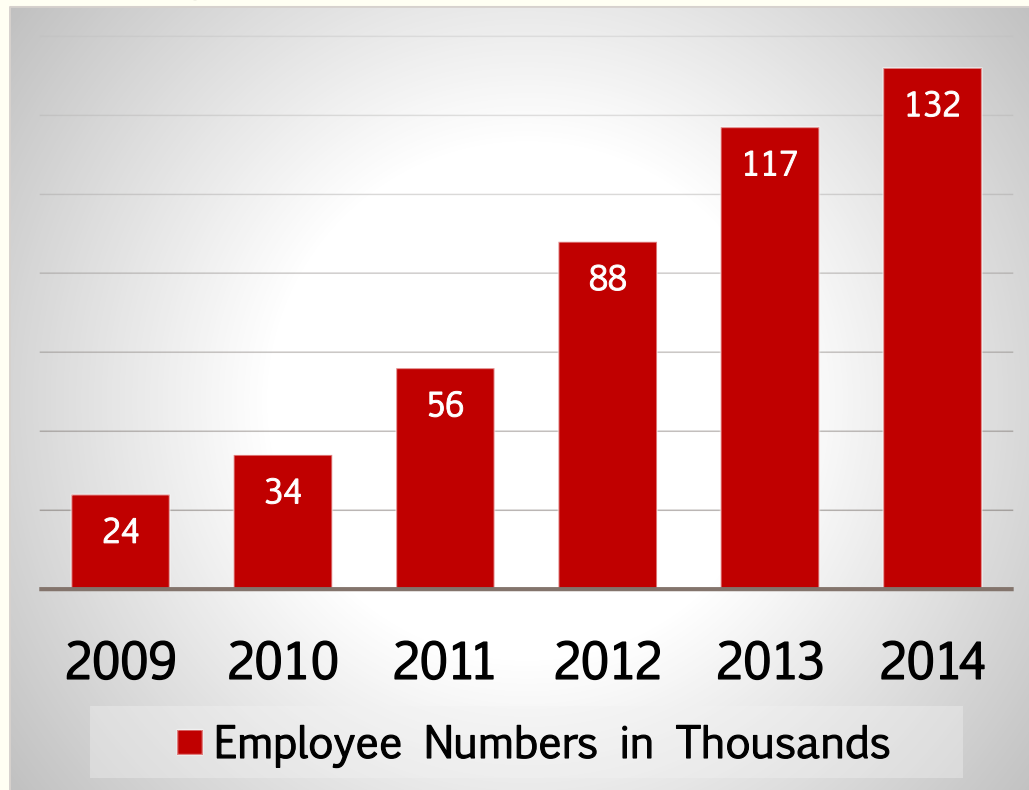


# Amazon Employees, Marketplace Sellers and Customers

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## Employees



Amazon Marketplace sellers: **2 million**

## Customers



Active customer accounts that have placed an order during the preceding twelve month period.

# Issues & Concerns: Massive Growth, Low Profit Margins

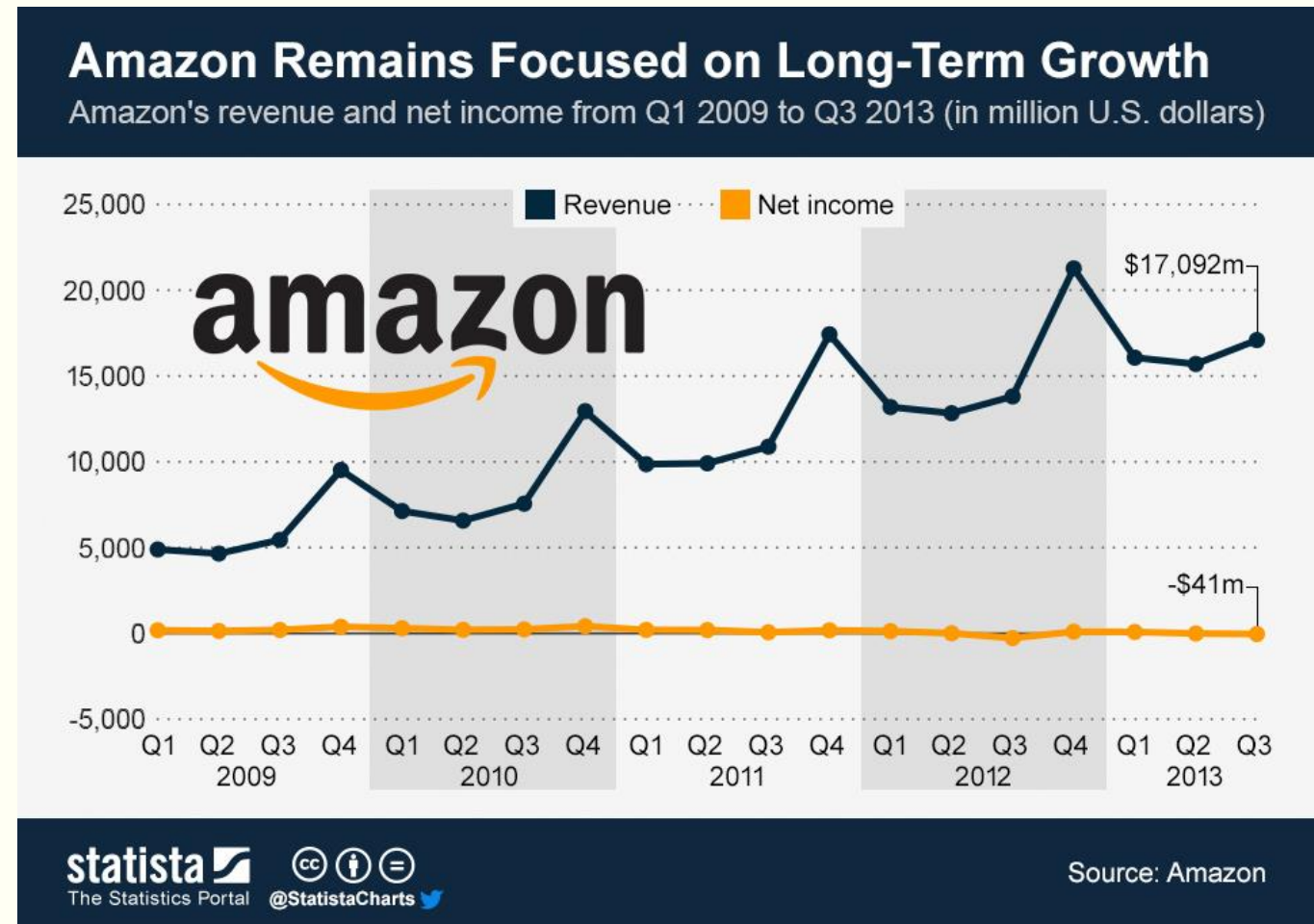
Investors concerned with **\$180 billion Market Cap** at start of 2014 due to **low profit margins**

With focus on **long-term growth**, Amazon is **not yielding satisfying profits** despite enjoying astronomical growth over the years.

Amazon generated **\$74.45 billion** in revenues for 2013

Amazon brought in **0.38%** profit in **Q1 2014**, whereas the Internet Retail industry average is **16.23%** profit margin

(source: Merrill Edge)





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# SWOT ANALYSIS

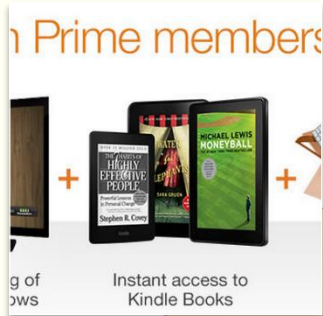
Resources, Capabilities, Strengths, Weaknesses, Opportunities and Threats

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# Resources & Capabilities

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## Resources

- Broad range of products
- Large sophisticated IT Platform
- Brand recognition
- First-mover advantage (e.g. Kindle e-reader)
- Entrepreneurial Leadership
- Large supplier network
- Huge active customer base



## Capabilities

- World-class logistics
- Top-of-the-line customer responsiveness
- State-of-the-art IT infrastructure (e.g. Amazon Web Services)
- Customized user experience
- Predictive analytics
- Anticipatory package shipping

# Internal Analysis

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## Strengths

- Competitive Pricing
- Superior quality services (e.g. Amazon Prime)
- Wide variety of products
- Efficient distribution network and logistics
- Vast Information Technology
- Innovative leadership



## Weaknesses

- Online presence only
- Huge shipping expenses
- Near zero margins (e.g. costs of free shipping)
- New categories can damage the brand (e.g. Fire phone)
- Poor working conditions in some warehouses

# External Analysis

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## Opportunities

- Technology advances major industry trend
- E-retail industry on the rise
- Large market for Cloud computing
- Online Ads on the rises
- Global expansions by M&A.



## Threats

- **Online security** customer concern
- Increased **tax regulation**
- **Lawsuits** and Legislation against tax avoidance
- **Increased competition** from U.S. brick and mortars
- **Future competition** from foreign e-retailers (e.g. Alibaba)



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# INDUSTRY AND GENERAL ENVIRONMENT

General Environment, Industry Forces and Major Trends

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# General Environment Analysis

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**Economic** –US Economy is still in recovering phase .Low interest rates increases consumer spending.(**Favorable**)



**Sociocultural** –Consumer’s acceptance of using internet as a shopping channel has contributed to growing trend in e-commerce and m-commerce. (**Favorable**)



**Political/Legal** - Taxation laws for ecommerce and International policies restricting the investing of foreign companies in their countries. (**Not favorable**)

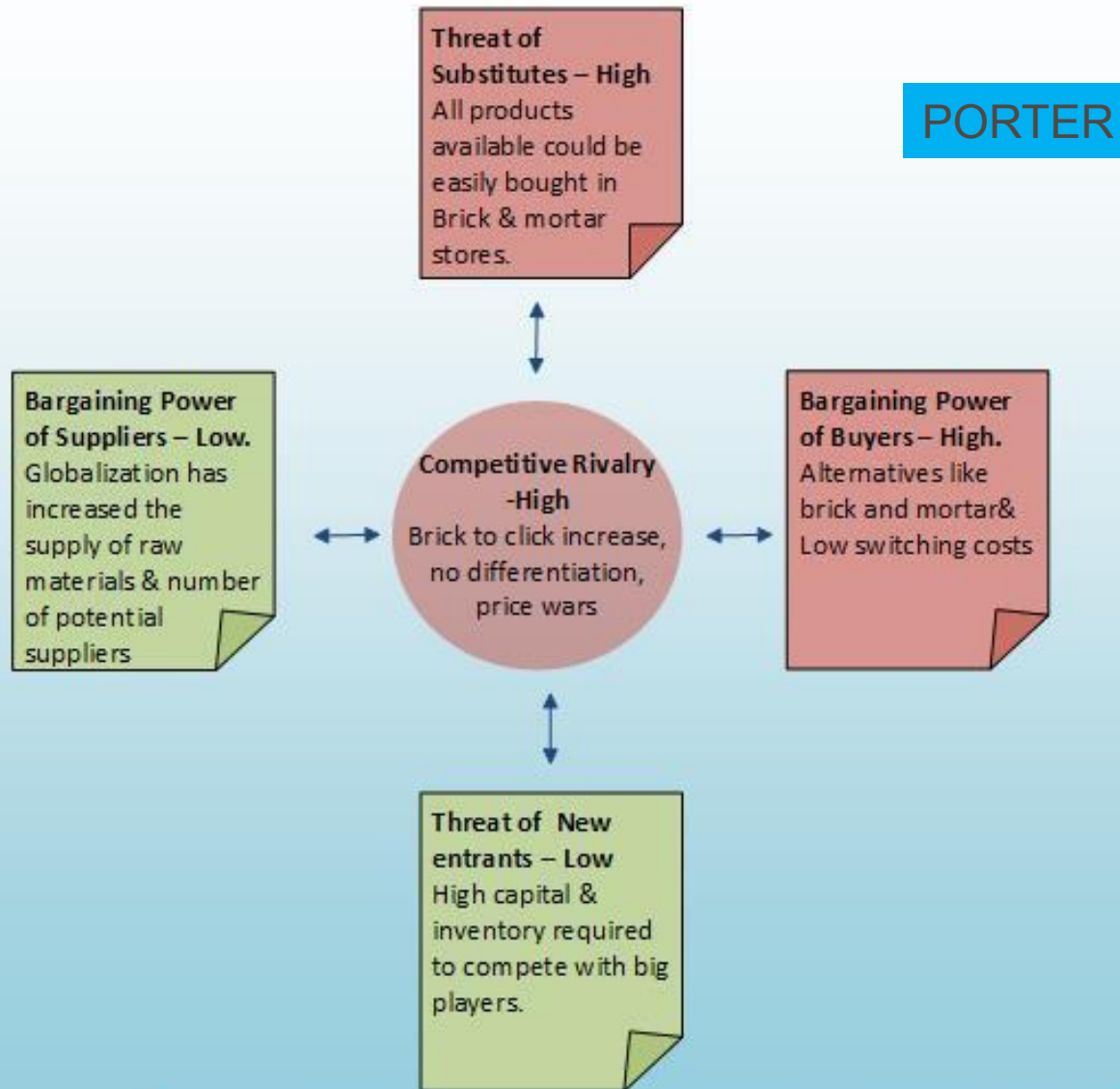


**Technological** –Technology is rapidly evolving and has opened new channels for commerce. Consumers are able to shop from their smart phones, tablets in addition to their desktops. (**Favorable**)

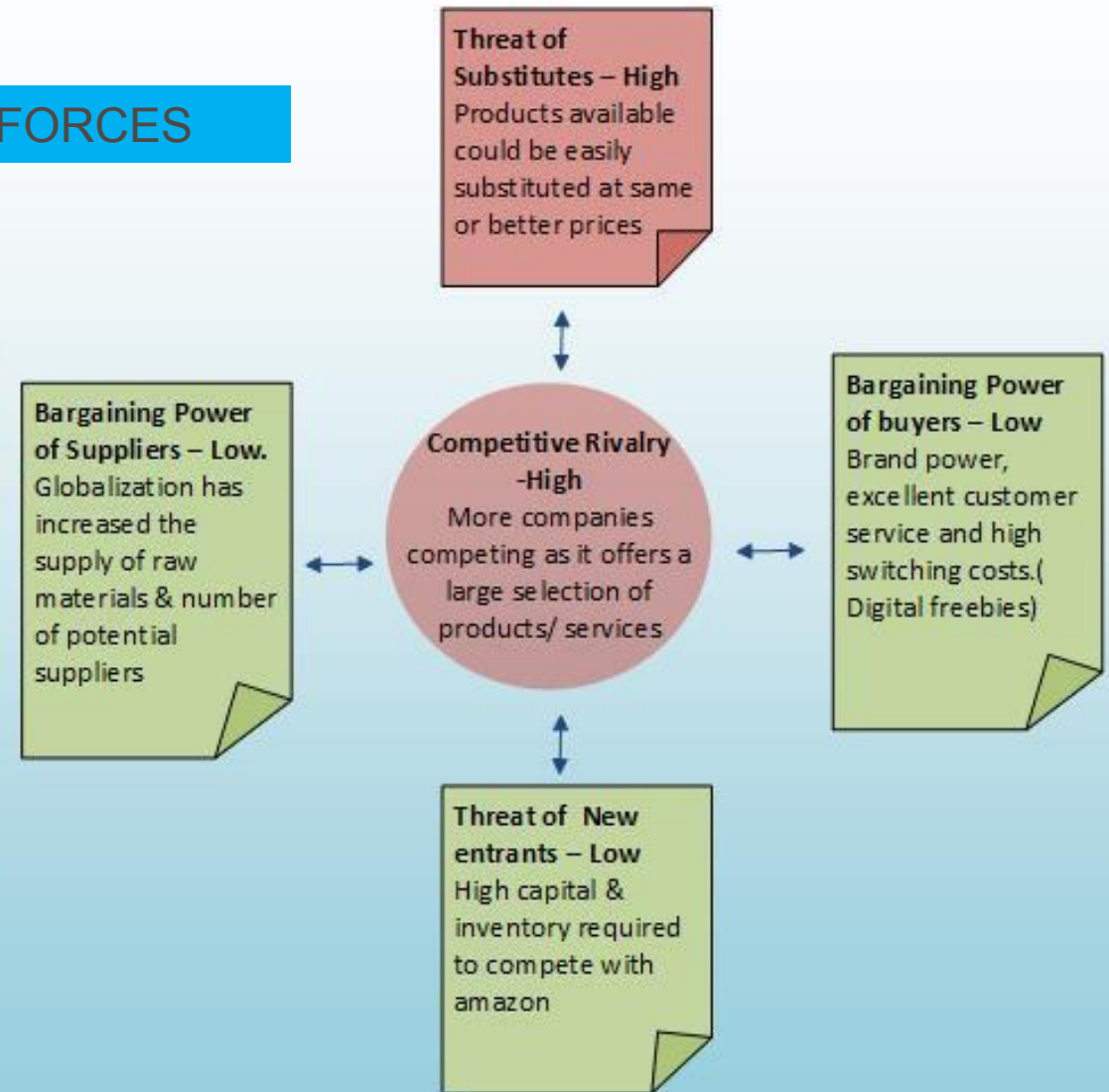
## Online Retail

## Online Retail - Amazon

# PORTER'S 5 FORCES



Online Retail Industry Attractiveness : Unattractive to new entrants



Industry Attractiveness : Moderately attractive to amazon

# Major Online Retail Trends in the U.S.

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Consumers expects immediacy of offline shopping to reach online retail



Using mobile devices (tablets and mobile phones) to do online shopping



Online retailers transforming customer data to business intelligence

**Where does Amazon stand?**

Amazon is ahead in the game in all current trends except for its physical presence



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# COMPETITOR ENVIRONMENT

Competitor Analysis and Sources of Competitive Advantage

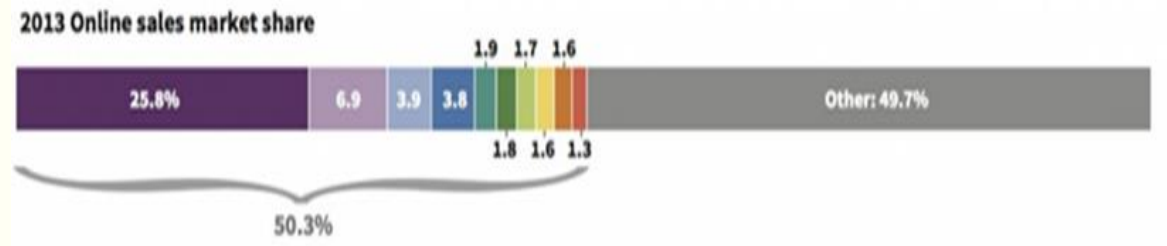
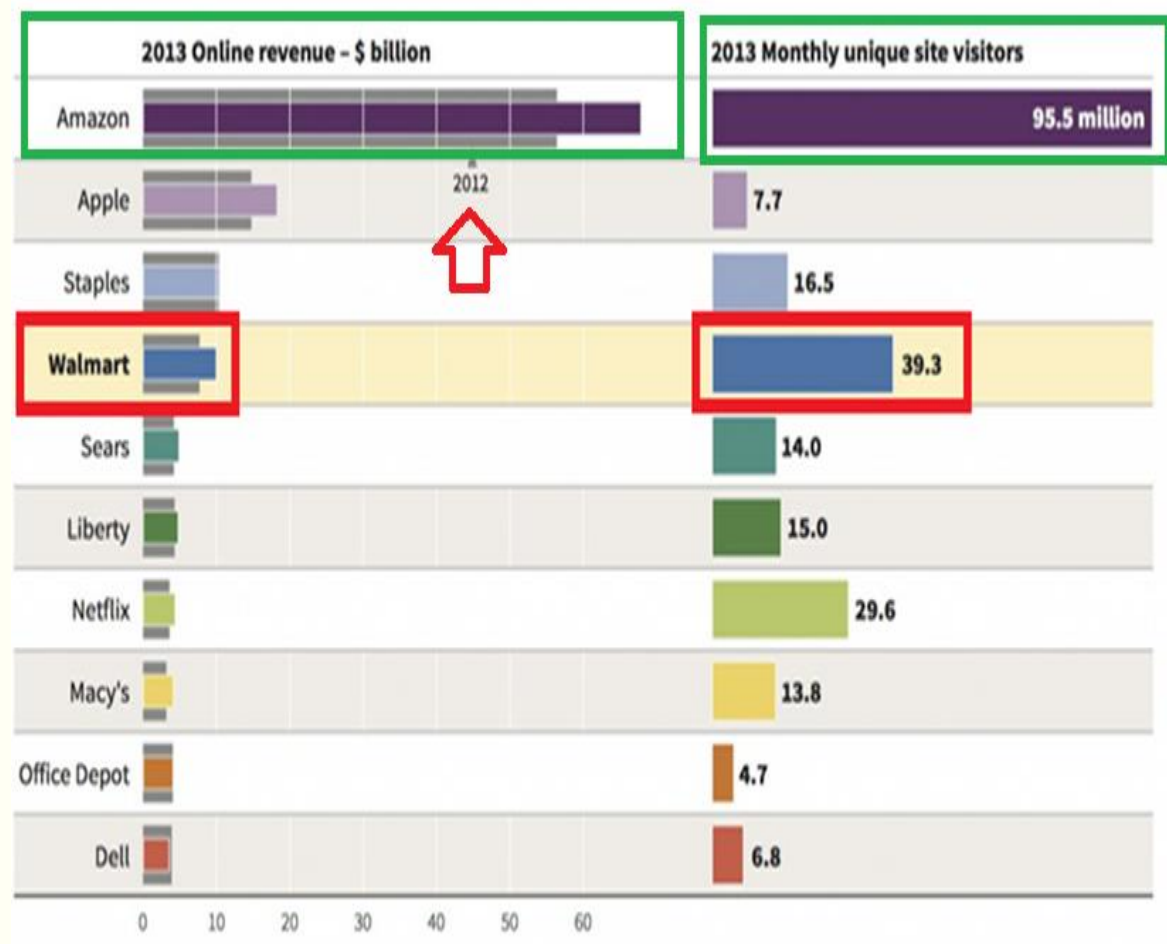
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Amazon.com online sales dwarf the competition in 2013. In billions, Amazon had \$67.9, Apple \$18.3, Staples \$10.4, Wal-Mart \$10 and Netflix \$4.4. Amazon's revenue growth never been <20%

## Top 10 U.S. online retailers

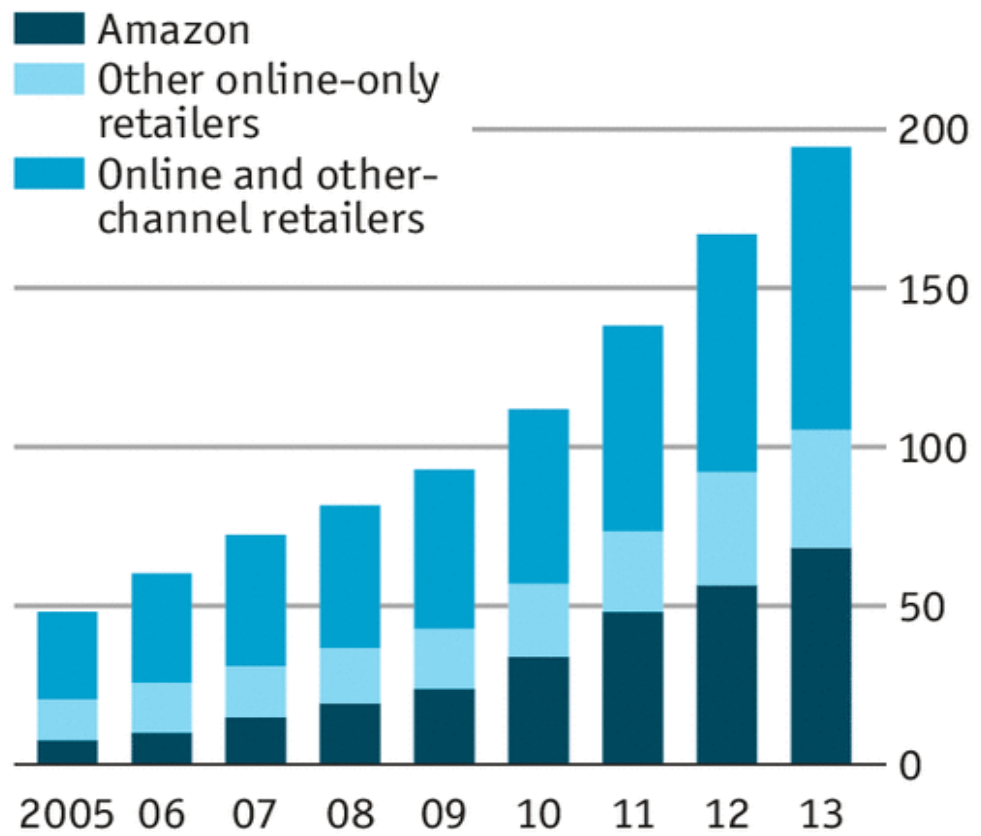
Walmart, the fourth-largest U.S. online retailer in 2013, expects online revenue to grow by 30 percent in fiscal 2014.



Sources: Companies; U.S. Commerce Department; Deutsche Bank; Internet Retailer

## The biggest play

Online retail sales in America, \$bn



Source: Citi Research

# Competitor Analysis: Presence & Business-Level Strategy

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**Amazon**

- Online & Offline
- Cost leadership & differentiation



**Walmart**

- Online & Offline
- Low cost leadership



**Target**

- Online & Offline
- Cost leadership & differentiation



**eBay**

- Online
- Broad differentiation



**11Main.com  
(Alibaba)**

- Online
- Differentiation

# Competitor Analysis: Strengths

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- **Brand** reputation
- **Large selection** of products and services
- **Economies of scale**
- **Customer Service**
- **Innovative Technologies**
- **Superior Logistics**

Amazon



- Offers **similar products** at competitive **price**
- Recognizable **brand name**
- **Technology** competence
- **Physical Presence**
- **Omni-channel** fulfillment strategy

Walmart



- Largest **online auction** site
- World's largest internet **marketplace**
- Recognizable **brand name**
- Large selection of products
- **Payment** system

eBay



- Visually **appealing** site
- Unique **shopping experience**
- Provides **virtual in-store** experience

11main.com  
(Alibaba)



# Competitor Analysis: Weaknesses

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- Zero or low profit margins
- Lack of physical presence
- Huge shipping expenses and Fire phone flop

Amazon



- Negative image on product quality
- Bad customer service
- No differentiation

Walmart



- High fees for sellers
- Uncertainty on future business direction

eBay



- Lack of brand recognition in U.S.
- Limited understanding of U.S. consumer as compared to Amazon

11main.com  
(Alibaba)



# Competitive Advantage: Size & Economies of Scale

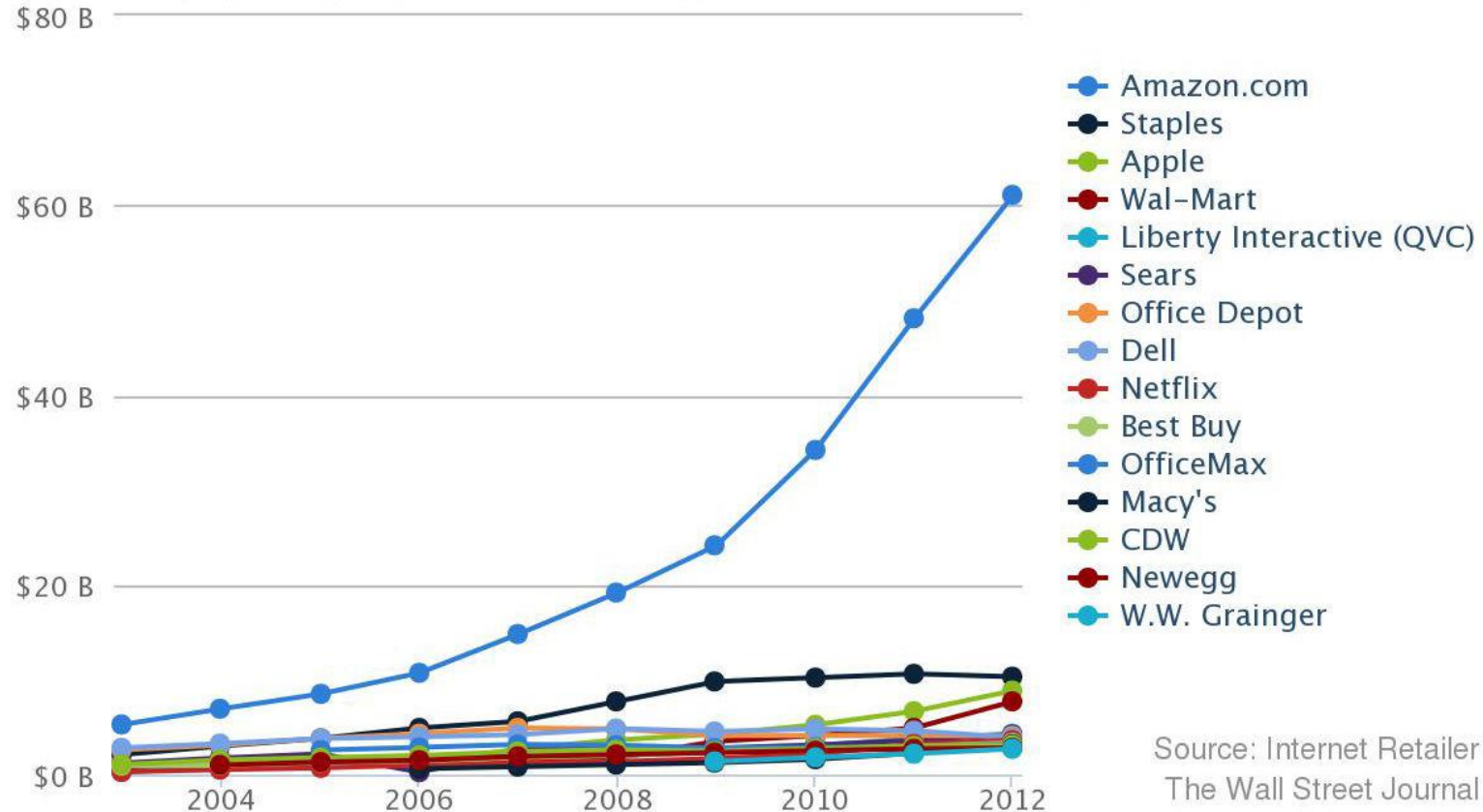
Amazon is **larger than the next dozen largest** e-retailers combined. Moreover, Amazon is a **pioneer of fast, convenient, low-cost** virtual shopping that has attracted millions of consumers.

## Benefits:

- Acts as a **barrier to entry** because it makes it **difficult for new entrants** to match the scale and achieve the same cost advantage
- **Is this sustainable?** ✓
  - **Yes:** Rare, Inimitable, Valuable, Non-substitutable
  - **\$150 billion** market cap represents **580%** increase over previous decade

## Running Away

Amazon has significantly outgrown the next 14 largest Internet retailers over the past decade.



Source: Internet Retailer  
The Wall Street Journal

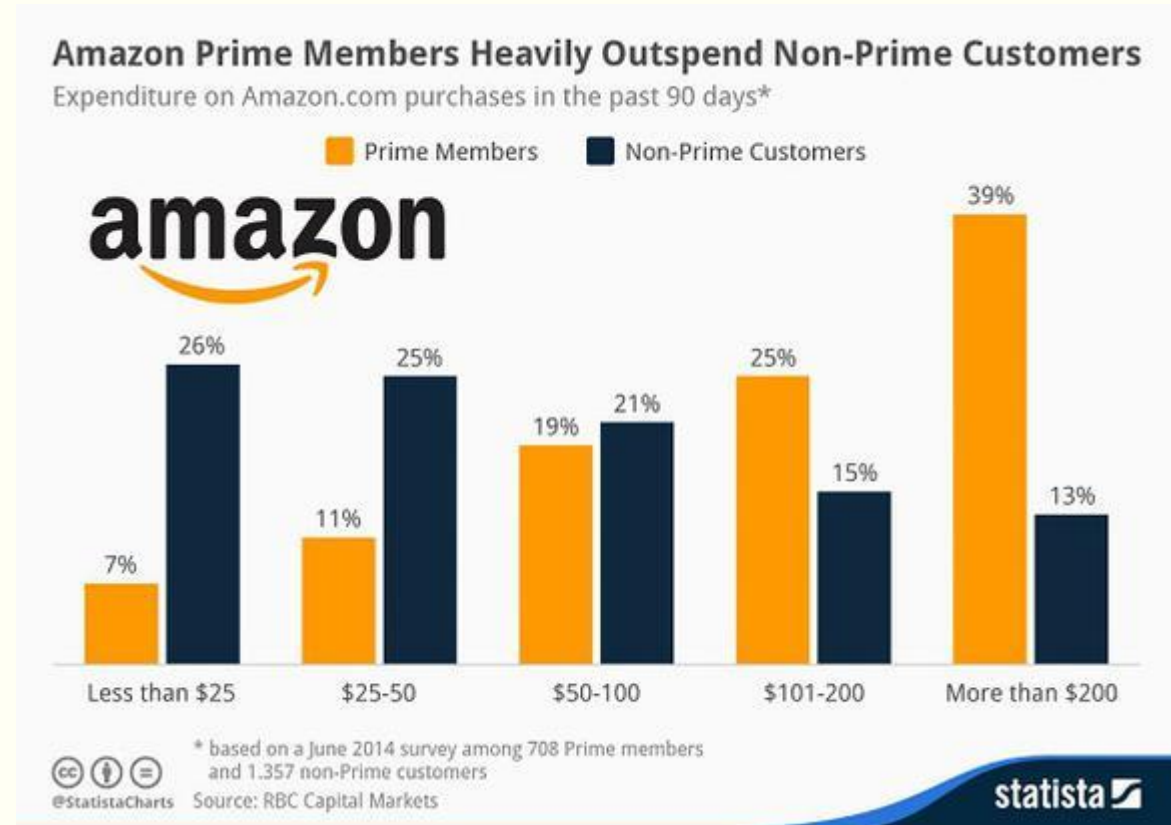
# Competitive Advantage: Strong Brand Loyalty

According to RBC Analyst Mark Mahaney, Amazon's Prime membership program may have as many as between 30 and 40 million subscribers in the U.S and 50 million subscribers worldwide, despite price hike from \$79 to \$99.

Prime customers spend twice as much as other Amazon shoppers (~68% more, RBC Capital Markets)

## Benefits:

- Acts as a **barrier to entry** because new entrants have to invest in creating a **similar program**
- Competitors need **strong efforts** to break existing brand loyalties and shift them
- **Is this sustainable?** ✓
  - **Yes:** Rare, Inimitable, Valuable, Non-substitutable



# Competitive Advantage: Superior Logistics & Distribution Systems

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Amazon delivers millions of goods, millions of times a day. Amazon.com maintains **huge distribution**, or “**fulfillment**,” centers where it keeps inventory of millions of products.

This is one of the **key differences** between Amazon.com and some of its **competitors**—it actually **stocks products**.

## Benefits:

- Acts as **barrier to entry** because new entrants have to invest in creating **similar logistics efficiencies**
- “**Kiva robot systems**” and “**Under-their-Tent**” strategies add efficiencies to enable low cost shopping and neutralizes threats
- **Is this sustainable?** ✓
  - **Yes:** Rare, Inimitable, Valuable, Non-substitutable



# Competitive Advantage: Differentiated and Innovative Products

Amazon has 1, 263 patents and Wal-Mart 53.

Spent \$4.6 billion in R&D last year and views retailing as a giant engineering problem to solve with technology.

- Amazon Fresh - Same day grocery deliveries
- 1-Click – Fast and easy way to order from Amazon.com
- Amazon Cart - Add items to cart via Twitter
- Kindle - Bestselling e-reader

## Benefits:

- Acts as barriers to entry because new entrants have to invest in creating a similar and unique products

Is this sustainable? ✓

- Yes: Rare, Inimitable, Valuable, Non-substitutable



Voted #4 2014 Most Innovative Company (Forbes)





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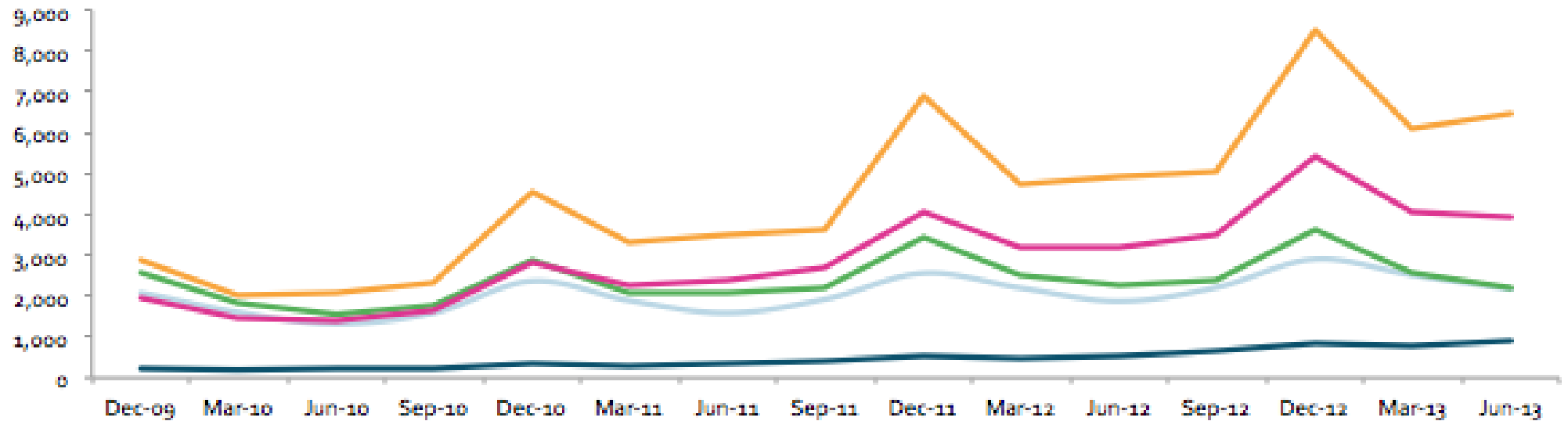
# AMAZON STRATEGIES

Business Level, Corporate and International Strategies

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# Corporate Level Strategy

Amazon revenue by segment (\$m)



[Source: Amazon]

## Corporate: Related Constrained Diversification

- Shares its core resources among business units
- ~68% of revenue from Online Retail BU
- ~22% of revenue from Digital Media BU
- ~10% of revenue from Amazon Web Services BU

# Business Level Strategy

## Integrated Broad Market

### Cost Leadership & Differentiation

Distribution as strength, low cost

- Kiva systems
- Fulfillment centers
- Supplier relationships

Heavily diversified within business unit

- Economies of scope
- Value proposition  
("one place to buy anything online")



# International Level Strategy

## What Strategies has Amazon employed?

### International: Transnational

- Both **Multi domestic** and **Global**
  - Many of the products offered from Amazon vary by country
  - Standardized website and delivery services

### Cooperative: Strategic Alliances

- **Vertical Complementary**
  - “Under tent” warehouse agreements with suppliers
  - Acts as the online store front for smaller businesses for a cut of sales
  - Click-through links

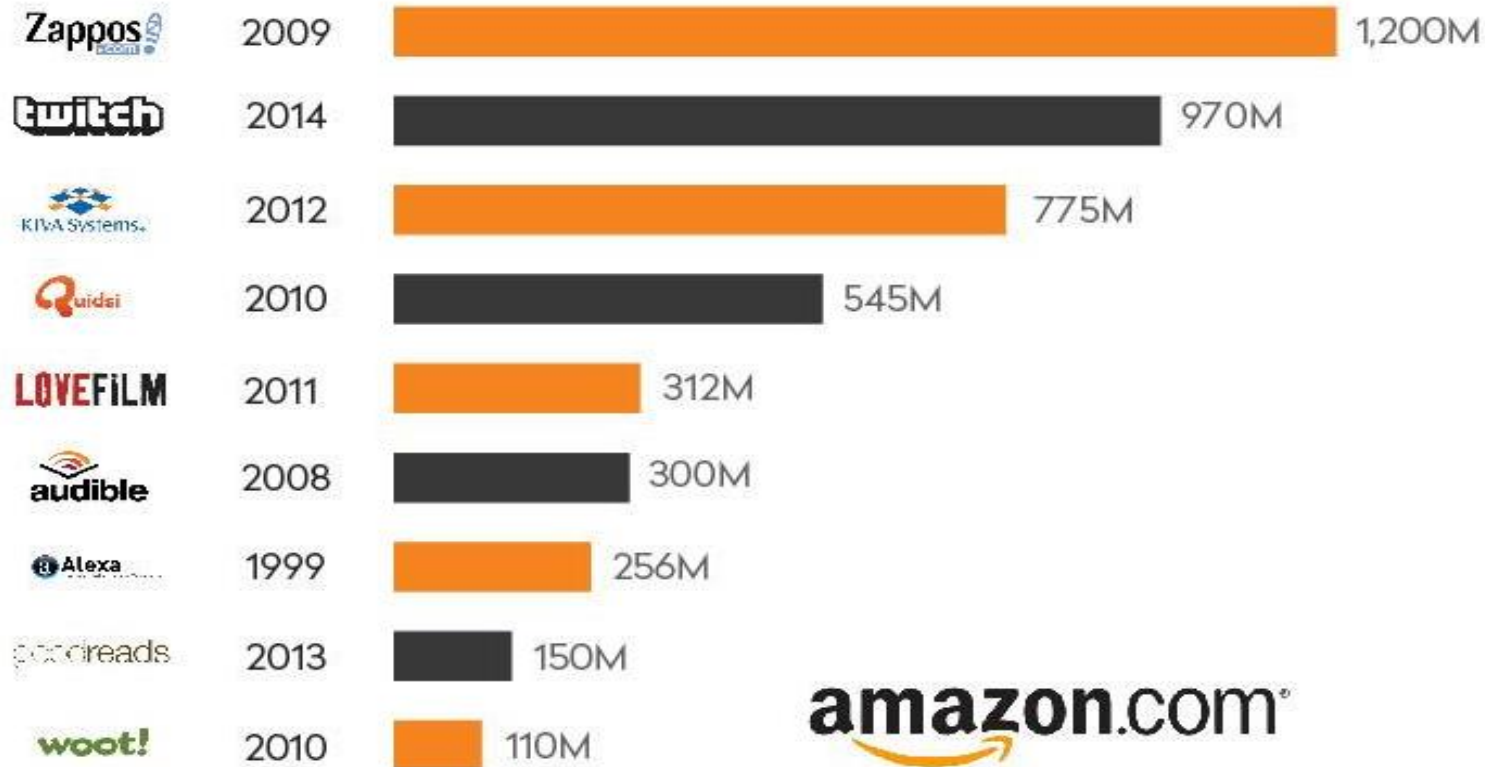
	Free Shipping	Membership Program	Launch	Annual Fee	Offering
	\$ 25	amazon.com <small>Premium</small>	'05	\$79	Free Two-Day Shipping
	£ 5	amazon.co.uk <small>Premium</small>	'07	£49	Free One-Day Delivery
	€ 20	amazon.de <small>Premium</small>	'07	€29	Free One-Day Delivery
	¥ 1,500	amazon.co.jp <small>Premium</small>	'07	¥ 3,900	Free Expedited (Same/Next Day) Shipping
	€ 20	amazon.fr <small>Premium</small>	'08	€49	Free One-Day Delivery
	CAD 39				
	30 Yuan				

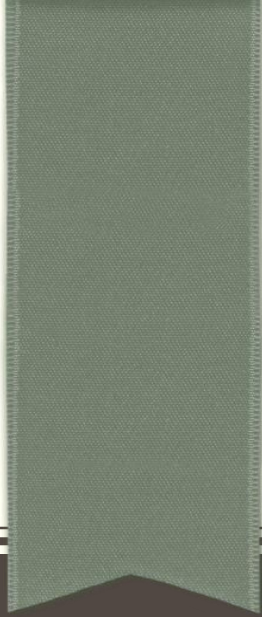
Amazon Premium Launched in FR; Super Saver Delivery Threshold Lowered in UK to £5

# How did Amazon get so big?

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## PRICE OF SELECTED ACQUISITIONS BY AMAZON FROM 1999 TO 2014





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# RECOMMENDATIONS

Conclusion and Key Takeaways

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# Recommendations

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## Low margins

- Leverage data for high-margin product marketing via online ads and mobile advertising



## Increased competition from brick and mortars

- Partner with marketplace merchants for "ship-from-store" options

## Decline in growth

- Partner with other online retailers to extend Amazon Prime subscription and increase revenues

## Over diversification?

- Stick to web interface innovation and efficient fulfillment/distribution. If necessary, M&As for expansion

# Conclusion: Lots of Opportunity Ahead

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- U.S. online retail sales expected to grow by **57%** in 2018
- U.S. businesses expected to spend **\$13 billion** on **Cloud Computing** by 2014
- US online display ad spending to reach **\$37.6 billion** in 2019, up 90% from \$19.8 billion in 2014

**Thank You!**

Any questions?



Sources: Forbes & Forrester Research Inc.

[Amazon Cloud Computing](#)





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# APPENDIX

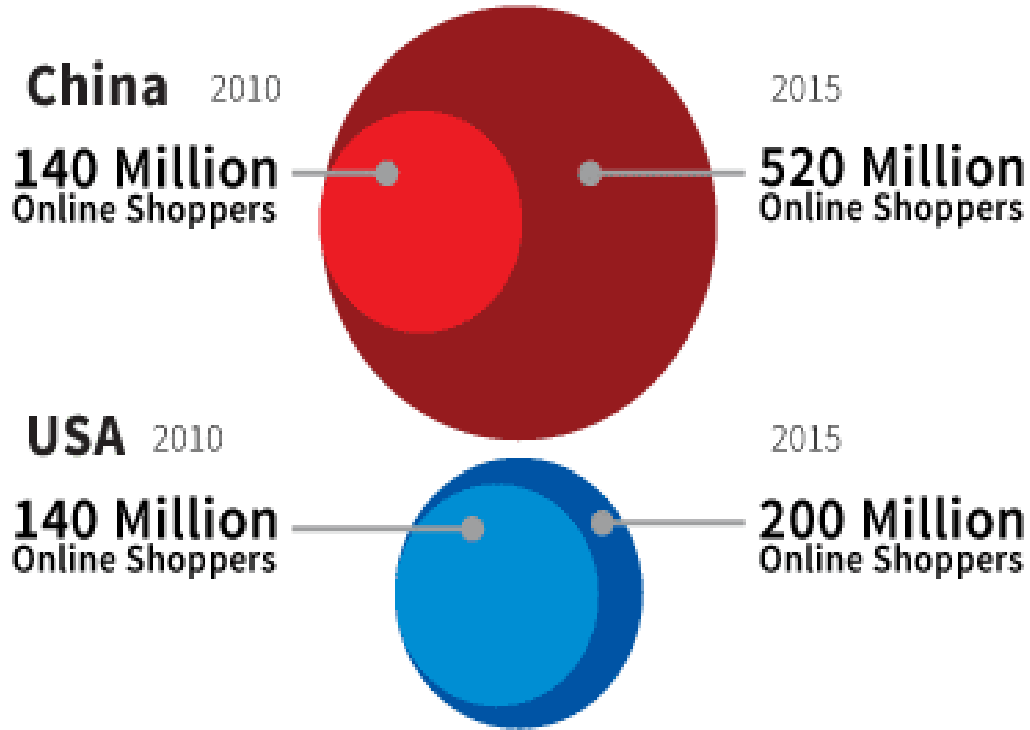
Additional information for reference

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U.S. e-commerce industry of \$482 billion expected to grow 11.4% and 10.9% during the next two years  
 Neither Mexico nor Canada e-commerce expected to grow much faster than the U.S.

Asia-Pacific will create more than \$525 billion in e-commerce sales this year, and grow 43.3% and 34.4%, respectively, in next two years

### Growth of the Chinese E-Commerce Consumer Base from 2010 to 2015



Sources: Strangeloop, iResearch, Money Morning Staff Research

## China on Path to World Domination in Ecommerce

Forecast: B2C ecommerce sales growth in selected countries in 2014



Includes products and services ordered and leisure and unmanaged business travel sales booked using the Internet.  
 \* includes sales from businesses that occur over C2C platforms; excludes Hong Kong      \*\* excludes event tickets

Source: eMarketer