amazon

STRATEGIC REPORT

2020

Executive Summary

The internet retail company Amazon is one of the world's most valuable companies, having recently reached a $1 trillion market capitalization. Currently, the company’s growth sees no rate of slowing down, with the company having reported revenues of $280.5 billion in 2019 alone.

The company started as an online bookstore in 1994, leveraging the internet industry boom, but over the years has grown its core business and expanded into many different ventures, experiencing an enormous growth verging on world dominance. Amazon’s success can be attributed to the company’s strategic thinking. The company understood from the very start that success was not only related to the service provided, it was defined by three main foundations: consumer obsession; massive scale; and long-term thinking – and those three values can be observed in most of the strategic actions Amazon has taken over the years.

Amazon’s success was also partly due the environment surrounding the industry of internet retail. According to FRED, e-commerce has captured over 12% of the total US retail market, having grow from less than 0.5% in 2000. Many factors have been helping that growth: socially, people associate e-commerce with convenience and are more prone to using digital services nowadays; technology has become more developed with Big Data being leveraged in new ways, as well as machine learning and artificial intelligence. Some barriers have also developed though: the non-present, immediate feeling of satisfaction consumers get with in-store purchases; but also new regulatory policies that protect economies from certain online retail strategies to capture new markets with unfair approaches.

To grow successfully within the this context, Amazon understood that the keys to success were based on: competitive prices, only achievable by a large economy of scale; the user experience of its platform, combined with the wide range of products available; and the convenience for the customer, which drove Amazon to capture more of the value chain, including areas such as manufacturing, logistics and even delivery. This allowed the company to build stronger and differentiating value propositions for the consumer. As the company understood the key success factors for the business, it built a web of resources – from one of the largest private workforces, to its extensive investments in PPE, and an ongoing concentric diversification of its business portfolio – and kept leveraging those resources with the development of strong internal competencies, all geared towards providing a competitive customer advantage and enable exponential growth.

Exploiting this exponential growth came with costs to the company’s public image, and missteps were made in areas like market power abuse or employee exploitation. The company understood that the reputational risks associated with not following through on their sustainability strategies would lead consumers elsewhere, and after these controversies, the company started investing in environmental and human capital pledges and high-profile initiatives to actively combat the mistakes of the past.

In this report, the corporate development steps Amazon took in its business expansion will also be reviewed. At initial stages, the company grew by expanding the categories of products provided. Only later it started offering services geared towards improving customer experience, such as Amazon Prime or Amazon Wardrobe. Those services enabled the company’s differentiation leadership as it started bundling services to create unique propositions in the online retail.

Understanding the power of the economies-of-scale and the ambition of having a cost leadership strategy, took Amazon on an aggressive vertical integration strategy, disrupting its initial intermediary model. It built its own fulfilment and distribution centers, and invested heavily in logistics infrastructure, as well as its own distribution services that to this day keep gaining more traction, taking more of the share of the services already provided by strategic alliances with carriers such as FedEx or UPS.

Not content with being settled in the US – as the continuous remarkable growth demonstrates – Amazon took the brand to the world, taking advantage its online business model which allows for much more rapid growth in comparison to a traditional brick-and-mortar retailer.

"World dominance", however, could not be done by sticking to just online retail. Amazon soon noticed the benefits of an ecosystem strategy that "traps" the consumer in a web of interrelated services. To do this, the company started to diversify into many areas of business, always with the focus of being present in people's lives. Those areas of business include brands and video or audio streaming such as Twitch or Audible; voice interface with Alexa and Echo; and other services such as Goodreads or IMDB. By existing in many fronts and having a well-developed ecosystem, the value of capturing a consumer grows exponentially and the company's growth sees no limits.

Amazon seems to be at a different level of understanding business when compared to its competition. That can be seen by looking at the top players. Amazon and Alibaba gather over 30% of the online retail world market share, and the business outside online retail keeps being more relevant for these conglomerates. Nevertheless, the company needs to keep investing in its future strategy, through vertical integration, development of physical stores and continuous penetration on markets. New challenges will come in the future like automated delivery or new verticals of business, as well as cybercrime security, or regulations. To overcome these challenges, Amazon will need to maintain its healthy investment in R&D, to be an innovation leader taking the crucial first steps in exploring new opportunities.

This report focuses on the evaluation and strategy definition of Amazon's **online retail consumer business**, although other products and services, outside the online retail consumer business, are considered throughput the report for purposes of understanding and evaluation of Amazon's strategy from an holistic point of view. Other Amazon businesses such as the B2B or businesses with sellers were not evaluated on this report. The analysis takes into consideration Amazon's strategy until the end of 2019, meaning **the effects of the COVID-19 pandemic were not considered**.

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1. Company Overview

When Jeff Bezos founded Amazon in 1994 as an online bookstore, its e-commerce framework forever disrupted the traditional retail business model: a customer no longer needed to be physically present to purchase an item – it could now be done from anywhere.

Soon after its humble beginnings, Amazon went public at a $382 million valuation in 1997. The company began selling music and videos in 1998, at which time it also expanded its operations beyond the US, by acquiring online book sellers in the United Kingdom and Germany. The following year, the organization also added video games, consumer electronics, home-improvement items, software, games, and toys to their roster.

In 2002, the corporation started Amazon Web Services (AWS), providing data on web site popularity, internet traffic patterns and other statistics for marketers and developers. In the years that followed, the company started expanding its business portfolio, through investment in technologies, enhancement of its logistic applications, improvement of its web services, a strong acquisition strategy and a strong experimentation with fintech and insurtech.

Over the past 25 years, Amazon has grown from a single product online store into a complex portfolio of businesses. It is the largest online marketplace, and through its concentric diversification into other areas, has become the largest internet company by revenue. It has developed AI assistants, cloud computing, and an entertainment streaming service. It is the second largest private employer in the United States and one of the world's most valuable companies. The company's growth currently sees no rate of slowing down, with the company having reported revenues of **$280.5 billion** for the fiscal year ending December 2019, an **increase of 20.7%** over 2018.

Amazon was able to disrupt the retail industry and reach new heights in other endeavors by capitalizing on technological developments. While most companies nowadays have embraced digital improvements across their businesses to execute strategies, quaternary companies like Amazon do so in the formulation of their strategy as well, embracing it as an integral component.

In 2001 – as the story goes – Jeff Bezos scribbled on the back of a napkin and set his strategy for the future of Amazon in motion. What Bezos drew would set the framework for all decision-making and reinforce the key tenet under which Amazon still operates to this day: **to be earth's most customer-centric company**.

Also known as a flywheel, Amazon's virtuous cycle is kickstarted by customer experience, and is reinforced by its momentum, too. If customer experience is positive, it increases traffic to the website. In turn, sellers are also attracted to offer their products through the website, which brings a larger selection of goods available to the consumer. These interactions then drive the economies-of-scale, reinforcing a lower cost structure, lower prices, and ultimately, further enhancing customer experience.

While customer-centricity and experience are the driving forces for the flywheel, the momentum feeds an integral cog in the machine: the economies-of-scale on which Amazon was built initially. As Amazon has grown into the behemoth it is today, its focus on fulfilling customer expectations has not necessarily been through the products or services it has expanded into, but through the scale at which it can operate. This scale allows Amazon to be more efficient at every step of the way.

Figure 1 – Amazon's virtuous cycle

Crucially, however, a flywheel can only work with a momentum to sustain it. Amazon have integrated three areas into their own principles to maintain this snowball effect: encouraging employees to obsess over customers, rather than competitors; to focus on long-term thinking; and to have a passion for invention and innovation.

Over the years, Bezos has highlighted this **interaction between customer-centricity and innovation** as the key driver for the company: "We innovate by starting with the customer and working backwards. That becomes the touchstone for how we invent."[1] Remarkably, that strategy has not changed. Amazon's exponential growth has allowed the company to accelerate the speed at which this flywheel turns, through continued steep investments in R&D for new services and new products, all to benefit its customer-base, and going as far as to disrupt further industries than its initial, core retailing business.

Jim Collins – who initially came up with the idea of the reinforcing strategy cycle – once detailed that the single greatest way of stopping a flywheel is by changing direction, even slightly. A testament to Amazon and Bezos' discipline then, is that almost twenty years since that flywheel was first drawn – it's still going.

The below report focuses on how the above strategy has intertwined with the core of Amazon's business in online retail, focusing specifically on the B2C activities.

[1] Adam Lashinsky, *Amazon's Jeff Bezos: The Ultimate Disrupter*

2. Environmental analysis

Environmental forces can be thought of as the ecosystem in which the company develops its business in. In this chapter we analyze the macroenvironment and microenvironment related to the industry, customers, competition, and suppliers. This analysis is fundamental to identify the drivers of change of business and study the contextual environment that the company needs to consider, to develop an effective strategy.

2.1. Macro environment

Over the past few years, the stratospheric growth of e-commerce has upended an entire industry: retail. With more retailers seeking to plant their stake in a hyper-competitive market, most stores are now expected to have an omni-channel presence, expanding into the digital sphere. In order to thrive, online retailers need to be able to identify and address macrolevel trends that can impact their overall business, such as those listed below.

Political		
Trends	Demand	Supply
USA-China Trade War	- increased import tariffs and end cost	- fewer imported goods available + increase in domestic goods available
EU scrutiny		- GAFAM tax could impact ability to fulfill regional supply chains

Economic		
Trends	Demand	Supply
Global online retail market	+ increased spending and use of new purchasing channelsl vs tradtional retail	+ increased fulfillment centers
Global financial system	+/- spending linked to general risk of the market: more disposal income, more spending	
Competiion as more retailers move online	- less demand from same pool of customers	- supppliers, too, may move to other platforms that offer other incentives

Socio-cultural		
Trends	Demand	Supply
Rapid urbanization	+ regional shifts leading to an increasingly urbanized, technologically-literate population	+ investment in delivery stations closer to larger populations
More of daily life has moved online	+ increased engagement with internet overall has led to new purchasing habits	
Consumer activism surrounding human cost of low-cost goods	- mounting criticism regarding working conditions and product origins	

Technology		
Trends	Demand	Supply
Increased internet availability	+ improved internet infrastructures in areas beyond urban scapes	
Big Data	+ customer acquisition + better customer experience + more knowledge about customers	+ more efficient fulfillment processes
Online retail as a rival to traditional retail	+ first-mover advantage, consumers attracted to new offerings	+ new ways of delivering customer experiences

Legal		
Trends	Demand	Supply
Targeted e-commerce regulation	- anti-competition laws could reduce some of the offerings available	
Rise of counterfeit goods in circulation	- lack of verifiability impacts willingness to buy and possibly also welfare	+ lack of efficient policing has seen a surge of counterfeit goods
Privacy protection and rights	- lack of consumer trust impacts purchase intent - GDPR in EU increases barriers between consumers and retailers	- unless consumer consents, company cannot hold onto spending patterns for predictive stocking

Environmental		
Trends	Demand	Supply
Increasing social awareness	– consumers becoming more aware of the cost of fast and efficient shopping	- suppliers and merchants need to adapt products to suit new social awareness
Increased ask for sustainabie materials	- consumers may look elsewhere for transparent products	+ with heavy investments into more sustainabie packaging and delivery methods

Figure 2 – PESTLE Analysis

2.1.1. Political

The power of e-commerce players has become so significant, their impact is no longer limited to the industry the operate in. Due to their revenue generating potential – and the existing size of some existing key players – online marketplaces attract much more scrutiny at all levels of society, including governmental.

In fact, e-commerce players in the largest markets, the US and China, are oftentimes collateral damage of ongoing political tensions, becoming proxy-players in trade wars. An ongoing trade war with China has seen the US impose a 15% tariff on goods imported from China. As a result, some products on the US-Amazon site have increased by approximately 2% to offset this initial tariff. While this trade war has considerable effects not only on the stock that Amazon is able to sell and at what price, it also effects their own strategic expansion as an American company in Asia. Alibaba, the Chinese e-commerce giant, has also reported slower global growth as a result of such foreign policy. While Alibaba's global demand may have slowed slightly as a result, the self-sufficient strength of the Chinese economy has meant it has actually been able to benefit slightly from the trade war. According to London-based Brunswick Group, for instance, 56% of Chinese consumers claimed they avoided purchasing an American product to show support for their country[2]. When considering that China's population of digital buyers exceeds 560 million – larger than the US, UK, Germany and France combined – the ramifications of a global trade war differ significantly depending on where the company operates.

In each instance, however, there is an increase of domestic goods available, along with an emphasis on more local production. This more localized dependency on production and supply chains echoes the recent isolationist stance of some governments, seeing a reduced amount of trade with foreign manufacturers.

One of the largest political factors to influence giants like Amazon, Alibaba, and smaller companies such as the UK-based ASOS or JD-Sports, has been the increased attention paid to its wage and price controls through consumer activism. While consumer activism will be explored in greater detail under Sociocultural influences, it is interesting to note how this activism has caught the attention of policymakers and governments. In response to national pressures, most of these companies have either had to increase its warehouse wages to meet minimum wage requirements, or continually combat negative press.

Another area that political figures are targeting both on the campaign trail and in legislation across the globe, is the consistent accusations of tax avoidance that have plagued big tech firms over the past decade. The ramifications of these legal loopholes are increasingly coming to the fore under a political spotlight, meaning Amazon and other similar conglomerates face increasing pressure in this area. Take for instance the GAFAM tax, which was named specifically for Google, Apple, Facebook, Amazon and Microsoft. Introduced in France in 2019, the tax would be applied to digital service companies with annual worldwide turnovers of EUR 750 million. As all of these companies are US-owned and US-held, a protectionist US government took a retaliatory stance, and threatened raising import tariffs by as much as 100% for some French products. While the European Union has been slow to adopt similar taxation rules for fear of increased levies on national export, the general trend suggests that if the bloc can come to a consensus for an EU-wide taxation law, tensions in an ongoing trade war between the US and Europe will escalate. This could have wide-ranging consequences for the GAFAM companies, well beyond increased tax – their ability to operate in these areas could be affected. While the above explores the GAFAM market leaders as a key example, smaller online retailers (comparatively speaking) could also be impacted by the ramifications of such regulations, with an increase on taxes in countries where they sell, not just where they operate.

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[2] Douglas Yu, *Trade War With China Looms Over U.S. Snack Sales On Alibaba 'Double 11' Online Shopping Day*

2.1.2. Economic

E-commerce sites, in their most basic form, ultimately still operate as traditional retailers, meaning the largest economic influence will begin and end with the consumer. As is to be expected with any retail business, whether online or in physical locations, a weak or weakening economy can affect consumer spending habits, and consequently lead to decreased revenues. While the global online retail industry has been forecasted to have a value of close to $2.4trillion in 2023[3], consumer spending will decelerate slightly as customers become more sensitive to sociocultural drivers and influences in their decision-making.

Customer spending can also be influenced by the risk of competitors. With the potential for growth in untapped online retail markets in emerging territories, many companies are now seeking to expand their markets in new geographies, and crucially, more customers. As already briefly mentioned under the Political scope, China, for instance, represents an enormous opportunity for companies to expand their customer base. As there are already dominant players in this area, many companies such as Amazon and Walmart are exploring expansion tactics in India, with the former having set up operations in 2012, and Walmart having acquired local e-commerce giant Flipkart for $16 billion in 2018. Further insights into the extensive competitive landscape in the online retail market will be delved into further in this chapter.

In today's context, a key factor which will also become an increasingly important driver in the economic environment of most industries is that of climate change. While environmental considerations will be discussed in greater detail below, the investment that online retailers have pledged to become more sustainable will impact final revenues for years to come. From the environmental and human cost of producing low-cost goods, to the delivery methods in which these products reach the customer more quickly, market leaders are investing considerable amounts to win favor with their customers, and with environmental regulators. This, along with competition for natural resources as is, will influence how retailers charge their customer to cover final costs.

2.1.3. Socio-cultural

The reach of online retailers has increased significantly over the past decade due to improvements in internet infrastructures, but crucially also because of the increased consumer engagement with the internet overall, stimulating "the adoption of online shopping habits."[4] Much like having information readily available through the click of a button, consumers now also expect shopping to be just as straightforward. Technology has fostered a new way of living, and giants such as Amazon, Alibaba and Walmart have very much capitalized on this idea of fast, convenient, on-demand shopping. The appeal of online shopping is also attractive to buyers as it can be done from anywhere, and on days such as Amazon Prime Day or Alibaba's Singles Day (the equivalent of the traditional US Black Friday model), there are no queues. The convenience of shopping mass-discounted deals online reduces the cost of information to the consumer: they have all the available deals available to them through internet searches, allowing them to find the best deal based on their set parameters, which could be price, quality, or a combination of both.

These lifestyle changes are easily attributed to a regional shift in populations, with an increasing population saturation in urban settings, where a quicker lifestyle pace dictates certain expectations in the service and goods industry. By 2050, for instance, estimates project that over two-thirds of the world's population will be living in

[3] *Marketline Industry Profile: Global Online Retail*
[4] *Ibid.*

cities. E-commerce players with significant infrastructures are proactively reacting to this trend, by building delivery and fulfilment stations close to larger customer populations.

While online retailers have amassed an enormous customer base, they have also attracted an equal amount of criticism from customers that are more knowledgeable and more considered in their purchasing. From sustainability to corporate responsibility, consumers are demanding increased transparency as they become more aware of the consequences of convenient, direct B2C shopping.

Online marketplaces attract new customers through its according model: consumers can search and find the lowest price for a product and can also manage how much they want to spend on delivery. These low costs, however, have had adverse effects on their supply chain. Warehouse working conditions have been likened to modern slavery – even with increase to wages. In 2019, leaked documents revealed that one of Amazon's Chinese suppliers had employed schoolchildren to meet demand during peak production periods. To counter these perceptions, Amazon must be proactive in creating better working conditions for its employees, especially as consumers now place greater emphasis in supply chain transparency, and understanding where their product has come from, and how.

Bad press has not just plagued Amazon. In the UK in particular, JD-Sports and Sports Direct, two retailers with a significant national online presence, have been subject to many undercover investigations. In 2015, the UK-run Channel 4 ran a program revealing harsh working conditions and borderline practices that skirt legal employment regulations[5]. Sports Direct also makes widespread use of what is called a "zero-hours contract", where the employer is not obliged to provide a minimum number of working hours. This means that workers are more likely to take on as much work as possible, as there is no guarantee of fixed-working hours or income: their pay depends entirely on how many hours they are able to get from their employer. In severe cases, sick pay is often not included in these schemes.

Investigations such as the above highlight the hidden costs involved in low-cost online retail businesses. With the consequences of fast-fashion becoming ever more present in the forefront of consumers' minds, the importance of sustainability in both ends of the supply chain will be analyzed separately, under Environmental forces.

2.1.4. Technology

The very foundation of any e-commerce site lies in technology. As such, any company hoping to thrive in the industry needs to place a huge emphasis on innovating its existing technological modus operandi.

Companies operating under an e-commerce model allows them to expand more rapidly than traditional brick-and-mortar retailers. To do this, however, companies rely on Internet availability, and improving IT infrastructure generally. With increasing global network coverage, retailers are able to reach a consumer base well beyond the urbanites they mainly cater to, meaning sites can now reach more rural populations too, as outlined previously. If one considers Alibaba, for instance, heavy investments into 5G technologies in China will allow the company to expand its reach of an already lucrative and significant market share.

With a more stable internet connection, online retailers can demand a greater purchasing attention and intention from its consumers. With this also comes the guarantee of more data. Big Data is used by online retailers to not only create hyper-personalized shopping experiences for their consumer, but also to predict stocking in warehouses

[5] *Sports Direct - investigation reveals harsh working conditions*

and further down the supply-chain. By identifying key spending patterns, online retailers can update their offerings accordingly, and their platforms too.

Companies in this industry cannot only rely on the infrastructure in which they operate, they must also use the technology to their advantage and create a shopping experience that rivals a physical one. As will be outlined in greater detail later in this report, Amazon has leveraged technologies to become an innovation leader in the field, reaping the many rewards that come with investing in new systems and services to enhance the digital buyer experience. It is rather telling that online giants now spend heavily on their own R&D to streamline purchasing, with Amazon taking the top spot in 2019 with a $23 billion, ahead of Google (Alphabet)at $16.2 billion and Microsoft at $12.3 billion. The potential returns in e-commerce are so fruitful, innovation is carried out at lightning speed, ahead of world-renowned tech-companies.

Though online retailers are heavily rooted in the digital world, some have also explored physical locations through technological innovation. From 2016 to 2018, Amazon trialed its first automated store, Amazon Go, offering a new grocery shopping experience. The shops make use of apps, sensors and other technologies to manage not only the shopping experience, but the supply chain as well. Since officially opening to the public in 2018, Amazon Go has expanded to over 25 other locations in the US. Alibaba, too, has branched out into the physical realm through Hema. Like Amazon Go, Hema uses the company's own app to track and complete purchases through barcodes, but it also goes one step further by recommending recipes. The stores also act as a distribution center, where further groceries are packaged and sent out by employees.

Reaching these touch-points – and indeed reaching all of their consumers efficiently throughout the process – is another area in which these companies are heavily investing, looking to revolutionize and innovate in delivery methods using up-and-coming technologies, such as drone systems. In fact, one could argue that companies who successfully leverage their technological capacities are in a better position to respond to most of their macroenvironmental threats, including more efficient processes across the value chain.

2.1.5. Legal

While global politics has affected many international companies to branch out in other territories, it is also regulation at a national level that can impede or support a firm's expansion. International expansion into China, for instance, is regulated through numerous licenses to dictate not just how companies sell, but also strictly how they present content. A similar overarching governance happens in India as well, where many companies have been focusing their latest growth strategy, among them Walmart and Amazon. Walmart, for instance, have been subject to strict national regulations in India, and both retail giants have seen the impact of recent regulation into how their business operates. Regulations introduced in early 2019 barred companies from making deals with sellers to exclusively sell on their respective platforms, or from selling products they have a vested equity interest in[6]. Many saw these new regulations as a means of placating smaller sellers who were threatened by the increasing presence of international online marketplaces.

In addition to the aforementioned GAFAM tax under the political umbrella, e-commerce giants have come under fire both in the US and abroad for its use of legal frameworks to avoid paying significant taxes. In the US, for instance, Amazon makes use certain tax credits and tax exemptions, by reinvesting their profits into research and development, or by purchasing new PPE. Further, as online storefronts, e-commerce companies are able to select headquarter bases accordingly, choosing to set up operations in countries or regions where taxes are lower. This

[6] *Walmart told US government India e-commerce rules regressive, warned of trade impact*

rhetoric also extends to the fact that by having limited physical storefront presence, these companies are able avoid many of the strict tax rules that are in place for more traditional brick-and-mortar shops.

Other national or regional regulations that have directly impacted many international e-commerce sites include the European Union's Competition Law and Data Privacy Laws. In their most recent annual report, for example, Amazon have admitted and notified shareholders that the European Commission have "opened an investigation to assess whether aspects of [their] operations with marketplace sellers violate" anti-competitive practices[7]. As per Competition Commissioner Margrethe Vestager, the "investigation centers on Amazon's "dual role" as both a retailer and a marketplace."[8] This dual role also came under fire in another EU investigation, namely whether Amazon was culpable for the sale of counterfeit goods on its website. While the Court Justice of the European Union determined Amazon were not liable in this instance, brands have been filing lawsuits against Amazon, with some going so far as to pull their offerings from the site entirely.

Amazon is not alone in needing to combat the presence of counterfeit goods. Two years ago, the US Government Accountability Office reported that five major online retailers sold counterfeit items, among them Walmart and Ebay. Of the 47 products that were bought by investigators, 20 were fake, with some being potentially harmful to the health of the consumer[9] (cosmetics or faulty phone charging cables, for example). As an online marketplace with third-party sellers, Ebay's auction system is an attractive way for many consumers to find deals on more desirable items, such as designer items. In order to combat a lucrative counterfeit market, particularly in the accessories market, the e-commerce retailer created goVerify. If a seller has this button on their page, it means Ebay have verified the product. This process involves both AI and two product experts, but crucially, this does not actually provide a certificate of authenticity. In Ebay's own words, they "provide an opinion only.[10]"

Though both Amazon and Ebay maintain they have a system in place, many argue the companies could do more to vet the products and sellers. This area of the business is certainly one that online marketplaces will need to work on if they want to maintain customer loyalty, trust, and sales, and lessen the risk of ongoing litigation.

Online retailers benefit immensely from having a wealth of consumer information available through several data points, which can predict purchasing patterns and habits. With heightened consequences surrounding data protection and privacy coming to the fore in new regulations, such as the EU's GDPR (General Data Protection Regulation) directive, the industry will have to adapt accordingly to maintain their competitive edge without breaking customer trust, and crucially, without breaking the law.

2.1.6. Environmental

With the rise of fast-fashion, retailers both in online and offline channels are able to produce goods more quickly, at a lower cost, but at the detriment of the environment. To counter consumers' concerns with the origins of products, or the company's stance on sustainability, many retailers have begun "Greenwashing" campaigns, which suggest ecological practices, but may not actually be following through on them. H&M's *Conscious* line, for instance, claims to me made through more sustainable means, but the brand still benefits and operates from a low-cost model where workers are often underpaid[11].

[7] Amazon 2019 Annual Statement
[8] Elizabeth Schulze, *EU to investigate Amazon over possible anti-competitive business practices*
[9] Hillary Hoffower, *Fake products sold by places like Walmart or Amazon hold risks of everything from cyanide to rat droppings*
[10] ebay.goverify.it

[11] Sophie Slater, *The 'Greenwashing' Hiding the Truth of Your Favourite Fashion Brands*

While the above practice of greenwashing often serves as a marketing ploy rather than proactive action, consumers are now demanding more transparency. In 2014, Amazon started responding to consumer activism, which highlighted the business model's conflict with sustainability. Over a period of two years, the company hired key industry insiders to head up newly formed Sustainability Initiatives. Fast forward to September 2019, and the company were the first signatory on a pledge to meet the Paris Agreement ten years early, hoping to be a net carbon zero company by 2040. The company have set ambitious targets to achieve this goal, starting with Shipment Zero, "an initiative to make every [shipment] net zero carbon" (Amazon sustainability report), from the packaging to the transport used to ship the item. A few months later, in February of this year, CEO Jeff Bezos pledged a further $10billion of his own wealth to combat climate change.

While this move was welcomed by many, industry-insiders and consumers felt it had been long overdue. In 2018, for instance, "Amazon emitted 44.4 million metric tons of carbon dioxide – roughly equal to the annual emissions of Norway"[12]. Though the company have invested in a record 100,000 electric delivery vehicles to be rolled out from 2021, many of the goods are still transported by air, which holds the largest carbon footprint. To counter this, Amazon have invested $100 million into reforestation projects around the world. The delayed response by Amazon to address its impact on the environment may cost consumers, especially when considering competitors such as Alibaba already had pledges in place as much as ten years before their US-competitor. Alibaba's list of sustainable goals and initiatives has increased steadily over the past decade, with one of their most ambitious being the Ant Forest, launched in 2017. Ant Forest acts as a personal carbon account, eventually allowing consumers to carbon trade and plant trees in exchange for environmentally friendly behaviors. In 2019, the initiative won the UN's Champions of the Earth prize, having planted over 55 million trees. Beyond the program's ability to encourage sustainable behaviors in its consumer base, it also attracted new customers, with the userbase now estimated to be upwards of 350 million people. In that sense, taking charge on environmental issues has resulted in more exposure, and positive associations.

Another key area online and offline retailers are directing their attention to is how the goods are packaged, as many consumers have taken issue with continued inefficient, wasted packaging. Amazon's current options include offering customers 'packaging-free' shipping, to reduce secondary and often superfluous packaging material. As part of the Sustainable Packaging Coalition (SPC), Amazon have also made attempts to work with their vendors to reduce packaging waste. Alibaba's own initiative in this, the Cainiao Green Action, was able to reduce packaging materials by 15% through box cutting algorithms and smarter box designs[13]. Similarly, Target have also taken steps to reduce packaging, or at least make the impact of excess packaging more transparent to consumers. By redesigning their most commonly used boxes, Target is encouraging buyers to recycle the boxes for other uses, rather than just dispose of them once the purchase has been unpacked.

The ramifications of not responding to environmental concerns proactively, visibly and consistently are playing a greater role in customer retention, as many consumers are now becoming increasingly socially aware of the costs associated with their purchasing habits.

2.1.7. Key Findings

The online retail industry presents a wealth of opportunity as more of the world's population becomes digitally and technologically literate, with increased access to internet infrastructures well beyond the current developed and

[12] Matt Reynolds, *Jeff Bezos Wants to Fix Climate Change. He Can Start with Amazon*

[13] Alibaba Group 2017/2018 Social Responsibility Report

predominantly urban audiences. Online retailers offer what many physical retailers cannot, which above all else is time and convenience to the consumer. With continued and exemplary innovation geared at improving the customer experience, the potential in growth for many of the key players is tantamount.

Considering the full scope of the industry's macroenvironment, however, the key issues facing online retailers in the current zeitgeist mainly pertain to forces that can damage or enhance reputations. Customers are becoming more actively involved in social causes, seeking transparency across all areas of a business' operations. When considering the buying power in existing and up-and-coming markets as more populations become technologically literate, online retailers have to work to not just dispel the negative perceptions about the industry, but actively combat them.

While some of the players in the e-commerce industry are firmly established and can weather most macrolevel storms, the relationship between some of the above explored dichotomies could affect how much these companies are able to grow in the coming years, and where. As a result, one could argue that the changing focus of these retailers then needs to be not just to be consumer-centric, but to be human-centric – to understand the person behind the data point.

2.2. Microenvironment: Customers

In 2019, over 70% of EU internet users shopped online. In individuals under 54 years old, this figure went to above 75%. These numbers have been steadily growing among all age groups over the last ten years, where online shopping was initially done by closer to 50% of internet users. Simultaneously, internet access has also grown consistently, so with both universal access and shopping penetration growing, one can establish a sustained upwards trajectory, whereby the e-commerce shopper becomes blurred with the offline one.

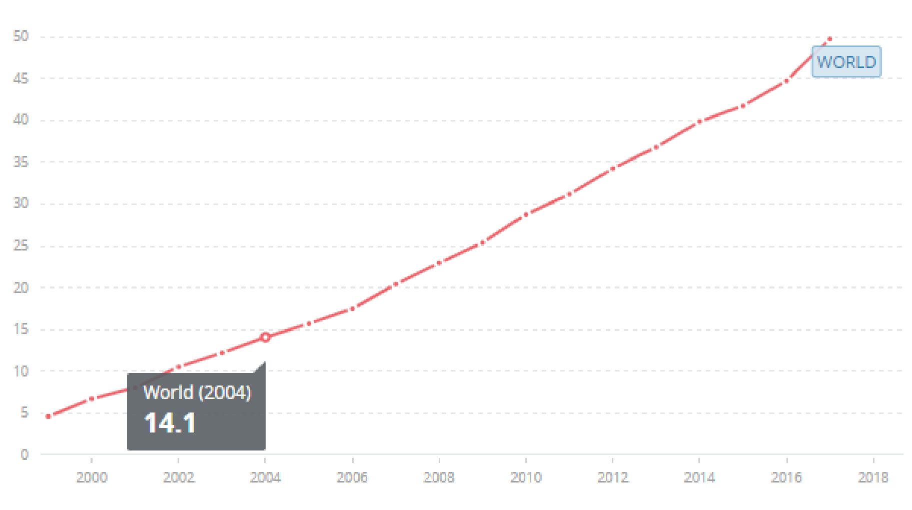


Figure 3 – Individuals using the internet (% of population) from 1999 to 2018

Penetration in online shopping is not only growing from an increasing pool of consumers driven by a greater access to internet, it is also growing organically, as consumers shift purchasing from offline to online. The main drivers for this movement are convenience related, as the ability to shop at any time of day, saving time in the process, and having everything in one place, improve the overall experience. Besides convenience, price is also a key factor. Online, a consumer has the enhanced ability to compare prices, can find more promotions, and consequently pay less for the same product. On a smaller scale, avoiding an offline experience can be a beneficial experience as it would not include traffic, queues, and having to carry the product. Online channels provides a greater selection that is not always available in stores, and may also offer free shipping, too.

To maintain growth beyond innovators and first adopters, online retailers have been trying to eliminate the barriers consumers feel on their sites, compared to the in-store experience. Wanting to see, touch and physically try products along with the shipping process have been identified as the key hurdles to foster the channel switch, at least for some products and consumers. To counter that, retailers have designed solutions to keep minimizing the barriers, such as free shipping, free returns, ease of payment or buyer review systems among others.

Beyond buyers' behavior, it is also important to comprehend who consumers are and what they buy online. To understand which one could be most insightful for the exercise, a set of segmentations were considered and then assessed for relevancy, preparing the analyses that follow.

2.2.1. Gender

As presented in the figure below[14], women hold a slight edge in comparison to men, although the types of purchases are approximate.

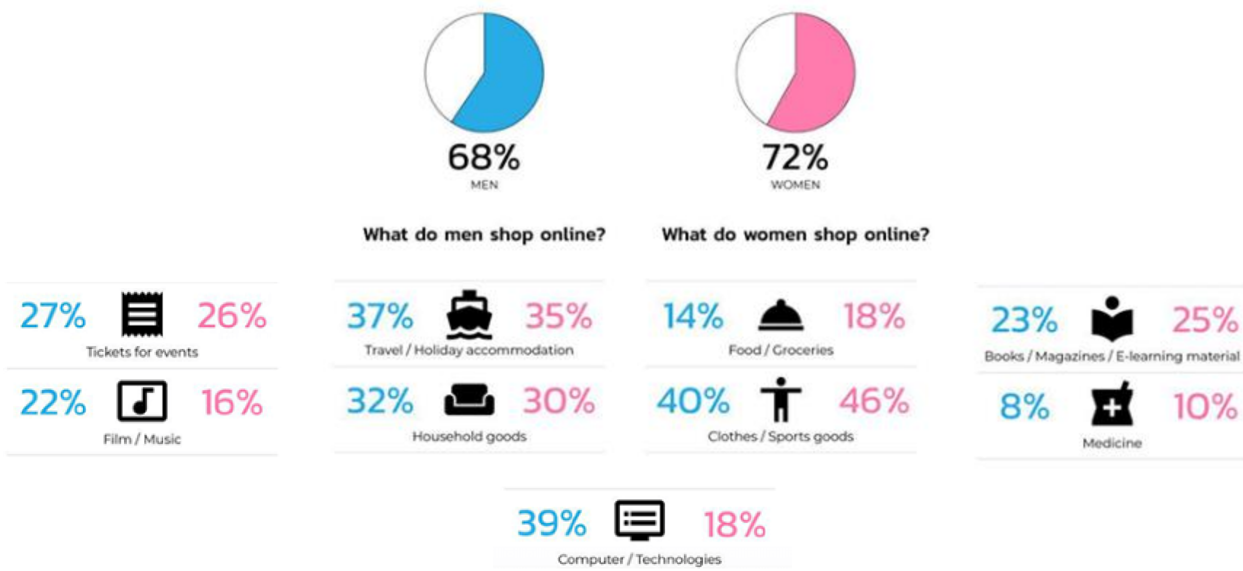


Figure 4 – Online shopping comparison between men and women

While the most present categories for both genders are clothes and sports goods, the trend still skews more towards women, while men double women's percentage on computers or other technology acquisitions. At a more balanced level between the groups, travelling arrangements and household goods are the other key categories which consumers buy online.

2.2.2. General attitudes towards shopping

From another point of view, consumers can be segmented into five distinct groups, as per the work GFK has done, to facilitate the understanding of their purchasing drivers and the best way to action them.

[14] BelVG Blog

1. **Constrained Strugglers:** A less empowered group, with an average age of 45 years and the highest mix of ethnic backgrounds. Tend to be classified as DE social grades, lower qualifications and less savvy at managing their household bills and day-to-day commitments. As a consumer, they tend to feel ill-at-ease with purchases, not likely to research for deals or negotiate with companies.
2. **Consciously Engaged**: An older age group (likely to be retired) and are financially astute. Less motivated to spend time shopping or researching for promotions. As a consumer, they tend to be predictable, traditional, loyal and have no interest in choice.
3. **Worried Indecisive:** The younger, female consumer who enjoys shopping but can be indecisive. Influenced by peers, friends and consumer experts. As a consumer, they engage more than then 'Constrained Strugglers' though have similar traits. These consumers would need more support.
4. **Traditional Value Seekers:** Are older like the 'Consciously Engaged', and in a strong financial position. Motivated by promotions and empowered to research. Confident shopper who is comfortable both negotiating and complaining. Conservative as they prefer to visit shops and are loyal to well-known brands. As a consumer, they are highly engaged and will find the time to get the best deal.
5. **Leading Edgers:** Qualified and affluent, compared to other segments, and they are more likely to use the internet so will switch brands. As a consumer, one of the most empowered (with Traditional Value-Seekers) and vocal to share their views post-purchase.

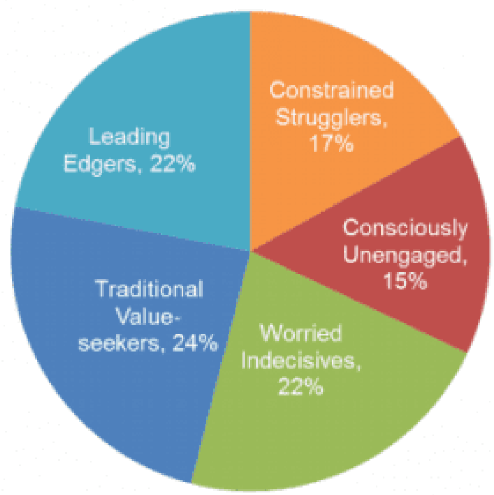


Figure 5 – Segment weights

2.2.3. Generational

1. **Baby Boomers (1946-1964)**: have high spending power and are less likely to bargain hunt. Value convenience and have high expectations on customer service. Loyal to brands and more likely to buy the ones with more notoriety.
2. **Generation X (1965-1980):** above average spending power, but more skeptical about marketing techniques. More actionable via proof of product quality/performance than showy marketing. Researche via user reviews, social media and search engines of products they intend on buying to avoid regret if they don't meet expectations. Easily reachable through email, are more likely to respond well to personalized offers.
3. **Millennials (1981-1997):** heavy users of web devices, even while in store. Important to develop an omnichannel strategy to avoid being excluded from consideration set. They enjoy shopping and see it as a social experience. Therefore, social media, influencers, recommendations from friends, family or other users can be the drivers

of purchase. Like Gen X, they also reject showy marketing and prefer more natural interactions with sales associates that may have already used a specific product.

4. **Gen Z (1998-2010):** Already born in the permanently connected age, so online naturally plays a significant part in the journey of purchase. They are proficient in comparing product characteristics, price, user ratings or reviews, and like Millennials contribute back on these last two aspects. Brands or retailers are therefore incentivized to interact with their customers and generate experiences around the products that can be shared and gain extra buzz from it. This group is more likely to value instant gratification of buying instore, even after buying online.

This generational segmentation provides an additional perspective on the industry's consumers. Ultimately, however, what is most telling about each of the above discussed segments, is not just why they buy – but what they buy. With so much availability and such a wide-ranging selection choice, consumers no longer need to be segmented according to just traditional segmentations but can now also be segmented according to what they actually buy.

2.2.4. Products purchased

As such, the below considers the products category segmentation for the purposes of subsequent analysis, as it lends itself to be more relevant in the frameworks presented ahead.

Electrical and electronics

This retail market is comprised of the sales of communications equipment, computer hardware and software, consumer electronics, household appliances, and photographic equipment. Communications equipment includes retail sales of answer machines, fax machines, fixed-line telephones, mobile phone accessories and mobile phones. Computer hardware and software includes retail sales of desktops and laptop computers, software, memory sticks, CD packs, hard disks and other data storage devices, computer peripherals, PDAs, organizers, calculators, and satellite navigation systems. Consumer electronics includes retail sales of CD players, DVD players and recorders, hi-fi systems, home theatres, in-car entertainment systems, portable digital radios, radios, televisions and video recorders, home use and portable games consoles. Household appliances includes major domestic appliances (air conditioners, dishwashers, dryers, freezers, hobs and extractors, microwave ovens, refrigerators, stoves, vacuum cleaners and washing machines) plus minor domestic appliances (blenders, coffee machines, deep fryers, food processors, grills, hair products, hair trimmers, curling tongs, razors, hand-held mixers, irons, juicers, kettles, stand mixers, toasters, sun lamps and fans). Photographic equipment includes camcorders, cameras, projectors, camera and camcorder accessories, binoculars and telescopes.

Apparel

This industry consists of the sale of all menswear, womenswear and childrenswear. These markets includes activewear, casual wear, essentials, formalwear, formalwear-occasion and outerwear.

Food & Grocery

Includes the retail sales of all food products, both packaged and unpackaged, as well as beverages (including retail sales of all alcoholic and non-alcoholic beverages), tobacco, and household products. All on-trade sales of food and beverage are excluded.

Homes and Garden Products

Consist of gardening and outdoor living products, home improvement products, and homewares. Gardening and outdoor living includes garden buildings, manual and electric garden tools, garden utensils, outdoor living products (garden furniture, barbecues, ornaments), and plants and growing media (bulbs, compost, domestic fertilizer, flowering plants, seeds, shrubs and trees). Home improvement includes retail (not trade) sales of decorating materials (paint, varnish, wall tiles, wallpaper), Electricals hardware (alarms, light fittings, plugs, switches), hardware (brackets, locks, nails, bolts, nuts, etc.), other materials (adhesive, aggregates, boards, cement, doors, window frames, glass, bricks, timber, etc.), and manual and power tools. Homewares includes retail sales of home hardware (crockery, cutlery, glassware, rubbish bins, storage, mechanical utensils and home devices e.g. scales), lamps and lampshades, textiles and soft furnishings (bathroom textiles, beddings, cushions, futons, hammocks, mattresses, table linen, furniture covers, doormats), and window dressings (blinds, curtain poles, rails, curtains, hooks).

Furniture and Floor Coverings

Furniture comprises retail sales of domestic furniture, including bedroom furniture, dining room furniture, home office furniture, living room furniture, kitchen furniture and bathroom furniture. It does not cover contract furniture. Floor coverings includes retail (not trade) sales of carpets, mats, rugs, carpet tiles, hard tiles, laminates, final and wood flooring.

Footwear

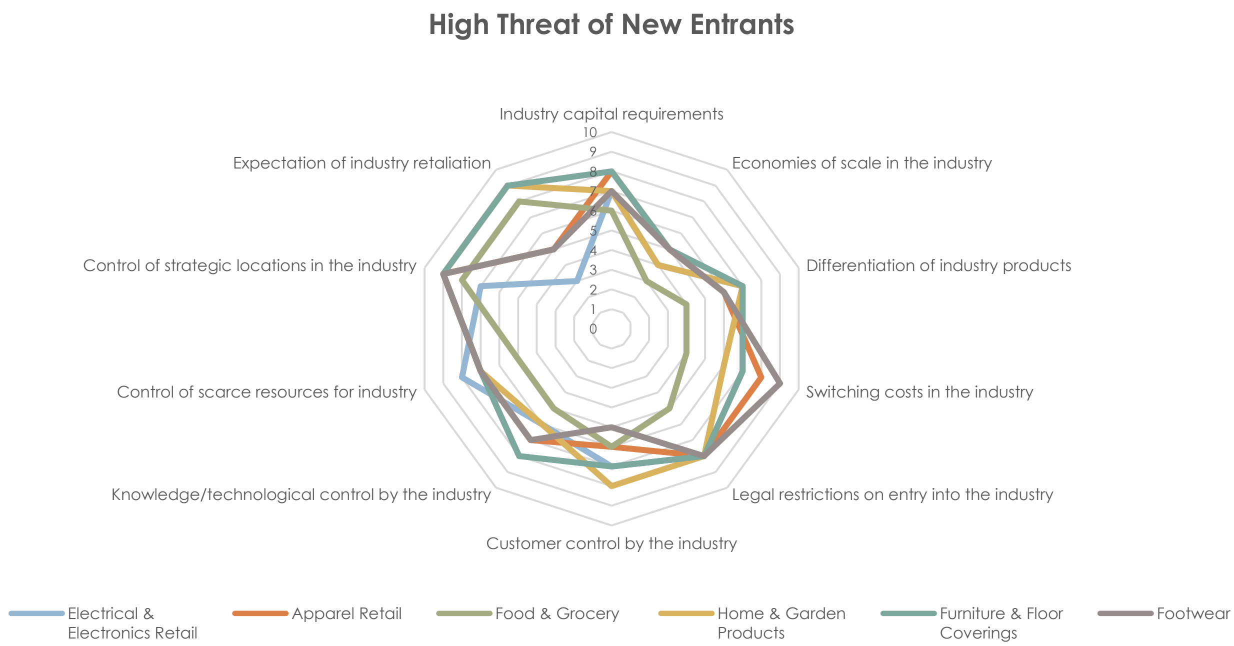
This market consists of the total revenues generated through the sale of all types of men's, women's and children's shoes. It includes all footwear categories for men, women, boys and girls, but excludes sports-specific footwear.

2.2.5. The Five Forces Model

It is possible to assess the structural return of each segment, or of the entire business through the five forces model.

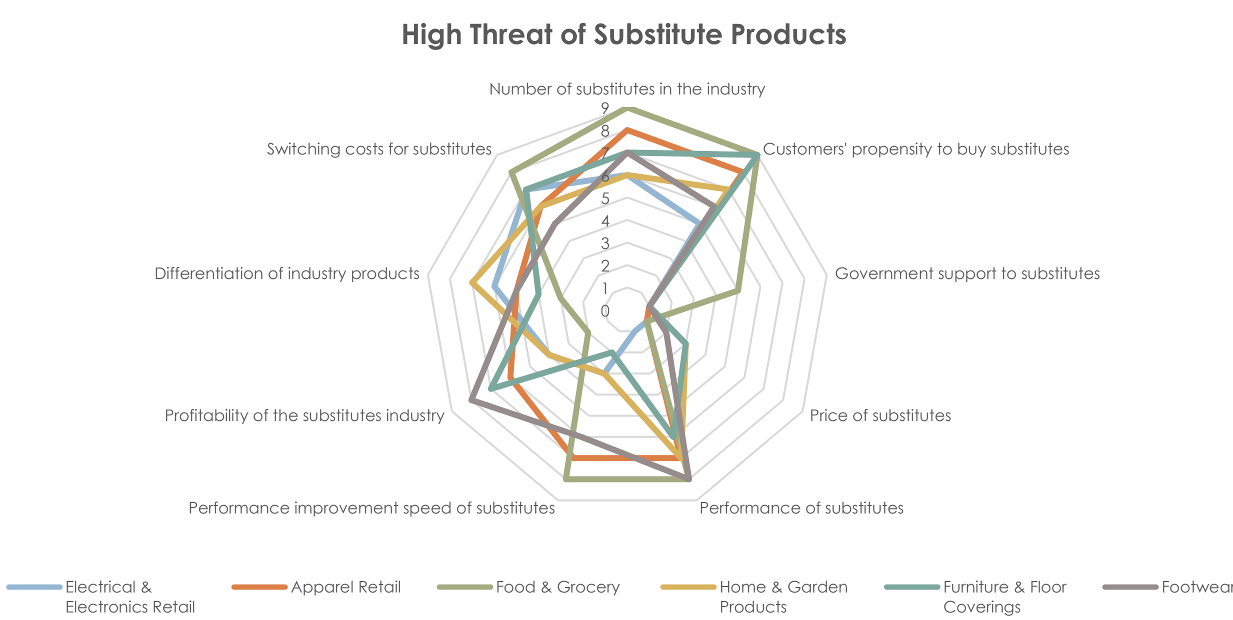
Threats of new entrants

The absence of a physical establishment (and therefore of strategic locations), the low level of sales forces, and the low industry capital requirements make the threat of new entrants high in the online retail industry. The technological advancement of the industry’s leaders can be replicated by newcomers and does not protect all incumbents. However, the economies-of-scale realized by the industry’s leaders is an important advantage in an industry with low margins such as online retail industry. The technological advancement of retail giants is also a barrier to entry. The brand identity and its associated products, with all that it implies for customers confidence, are another barrier to entry. Because of the complexity of establishing a large and efficient operation, the Food and Grocery segment is better protected from new entrants.



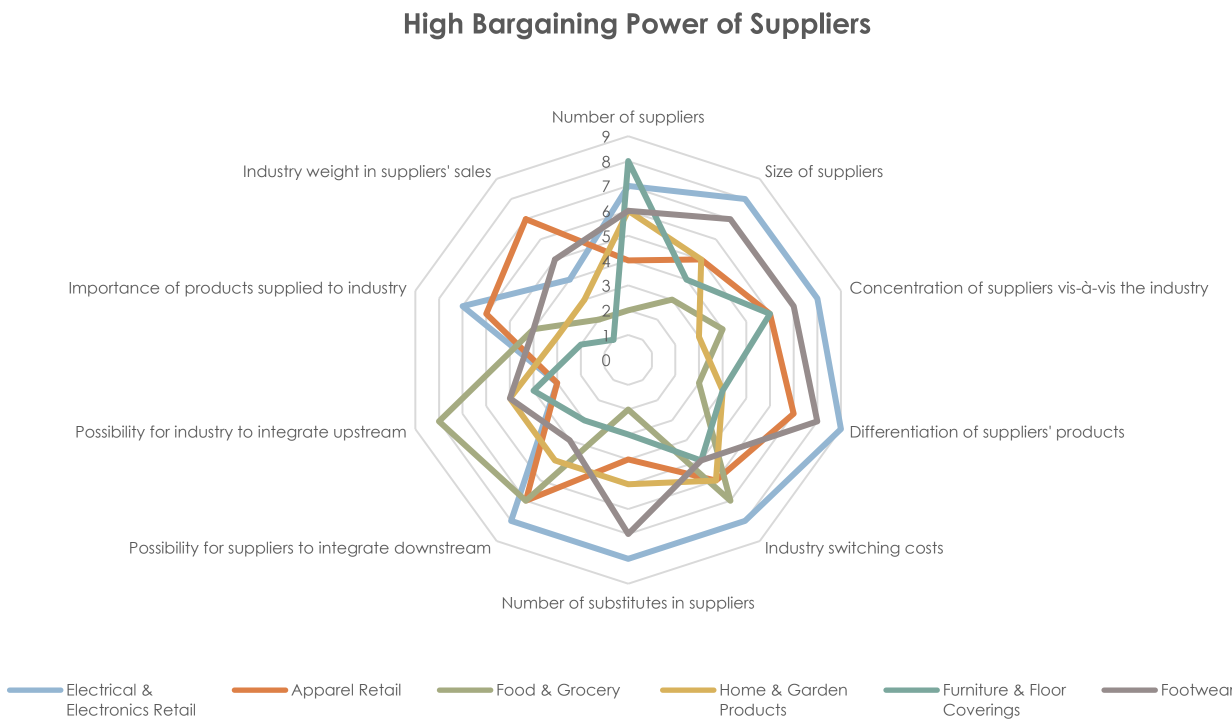
Threat of substitute products

Diversification in the online retail industry increases the threat of substitute products, not only from competitors within the industry, but also from brick-and-click retailers such as Walmart in the US. The customers' propensity to buy substitute products in most segments, the existence of numerous substitutes, and the absence of switching cost increase the risk level for online retailers. However, the overall performance, especially for the Electronic segment, improvement and prices of substitutes protect online retailers.



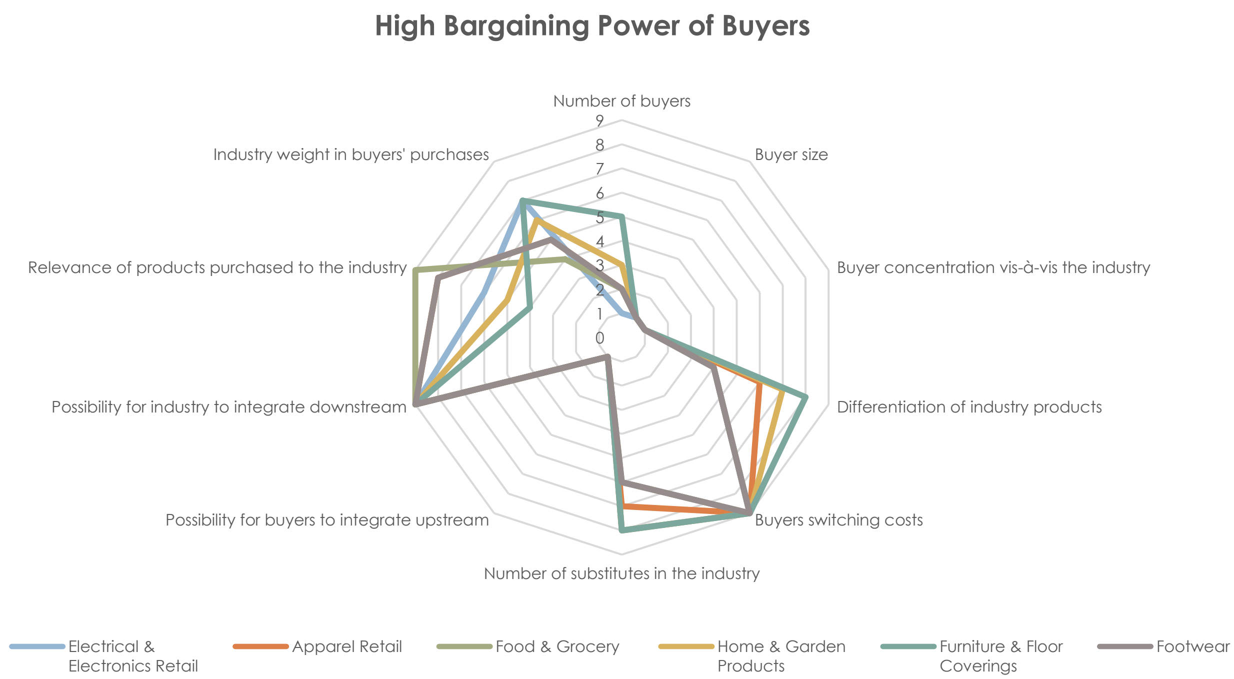
High bargaining power of suppliers

Due to the low level of industry switching costs, and the low importance of (most) products supplied to the industry, suppliers do not have much bargaining power over the industry. Online retailers are a major threat to some suppliers, as they are increasing their capability to integrate backward. However, our analysis shows that the Electronics segment is more affected by the high bargaining power of suppliers. This might be one of the reason why some online retailers have stated aggressive backward integration in that segment.



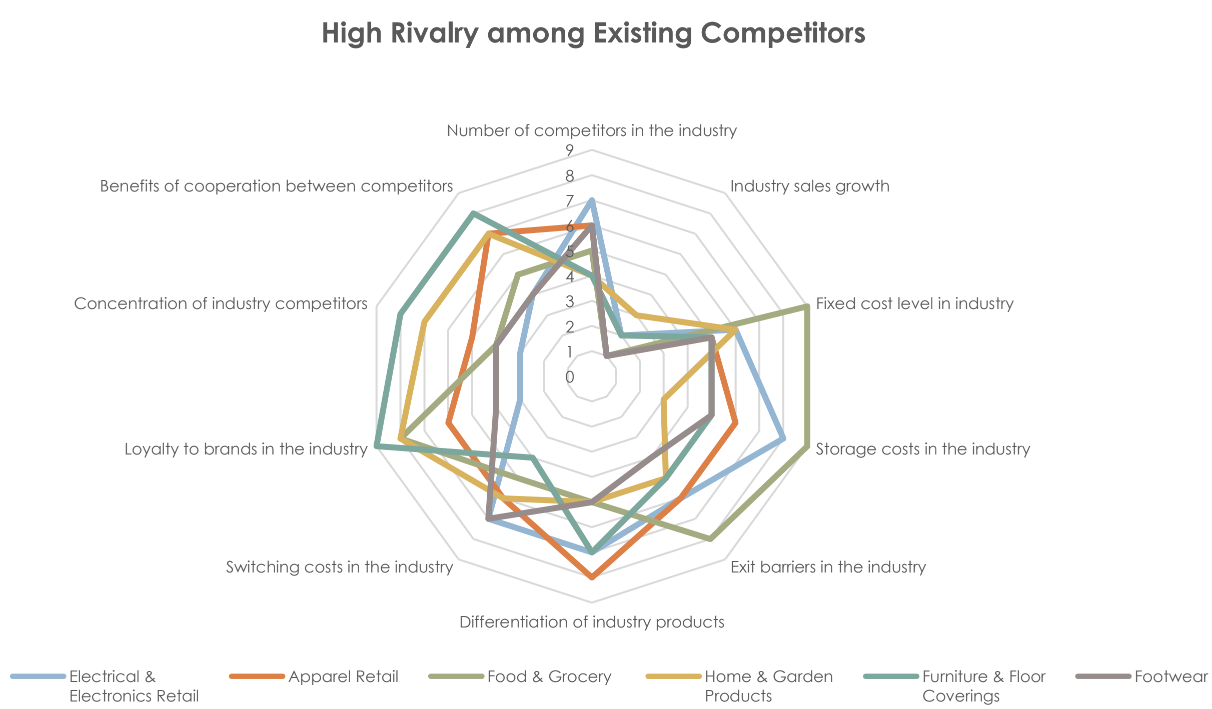
High bargaining power of buyers

The industry is highly vulnerable to the power of buyers and this is true for all segments. The low switching costs, the high number of substitutes and the low level of differentiation in industry products leave the industry at risk. It forces the industry players to remain competitive in terms of prices, something they manage through lean cost structures, and in services quality. This situation drives innovation in the sector. Finally, some players are protected by their brand equity and image they gain among consumers.

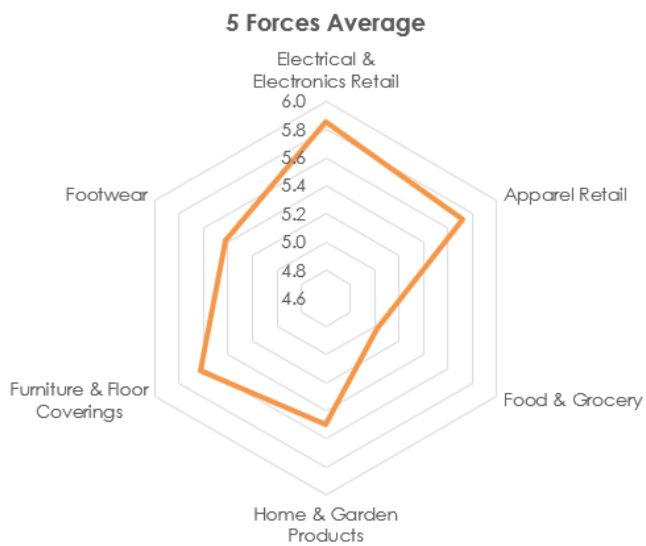


High rivalry among existing competitors

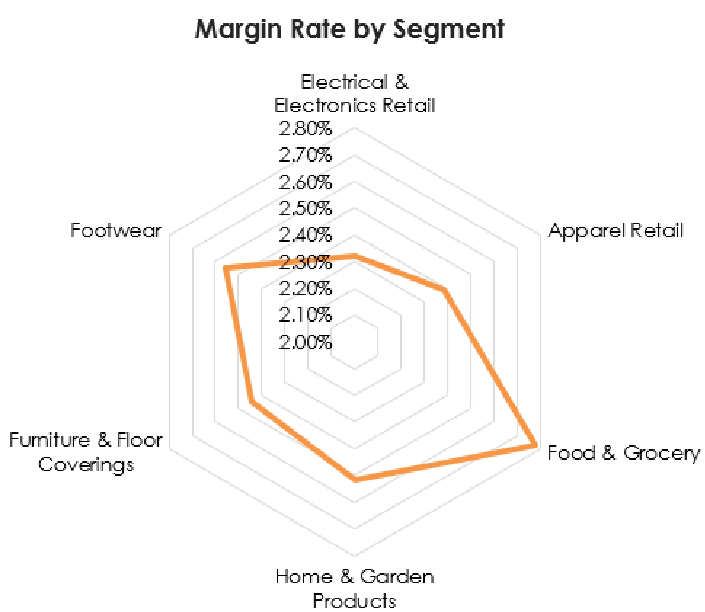
The low level of brand loyalty and switching costs, make the industry's players vulnerable to fierce competition. The very high sales growths in all segments have so far protected the industry players. It must be noted that some markets (China, in particular) are more vulnerable to rivalry among competitors than others.



On **average**, we can see that some segments are more affected by the five forces than others. This is particularly the case of the electronics segment which – while well established – is growing fast despite the high volume of sales. This attracts new entrants, suppliers and buyers. On the other side, the Food & Grocery segment is growing fast but remains small in comparison to the biggest segments in terms of sales. In addition, the complexity of setting up an efficient operation in this segment protects incumbents from new entrants. However, the power of substitute that can set up online, such as Walmart, and the potential growth in this segment might change the situation in the mid to long term.



With extremely low margins in the online retail industry, from 0.5% to 4.5%, online retailers adopt strategies to increase volume to remain competitive. The importance of economies-of-scale protects strong players against entrants and lead to a highly concentrated sector. This is the case in all the segment although as we will see below some players focus successfully on certain segments.



Sustainable Value per Segment

The figures collected from Marketline Industry Profile on online retail show that all segments are growing extremely fast and are expected to continue growing in the coming years. Some segment that are not yet as well-established online as others, such as Food & Grocery, are growing particularly fast and are expected to continue growing like this.

Segments	Sales (in $ billions, 2018)	Growth (2018-2023)
Electrical & Electronics Retail	$ 376,00	13%
Apparel Retail	$ 262,40	19%
Food & Grocery	$ 175,80	21%
Home & Garden Products	$ 129,00	10%
Furniture & Floor Coverings	$ 67,90	13%
Footwear	$ 64,50	23%
Other	$ 116,40	20%
Total	$ 1 192,00	16%

The reduced margin forces the industry's players to focus on sales volume. As one can see on the table below, each segment presents a specific risk but the high growth of each one of them protect them from variability.

Segments	Margin Rate by Segment	Net income by Segment (in $ billions)					Risk by Segment
		2019	2020	2021	2022	2023	
Electrical & Electronics Retail	2,32%	$ 9,76	$ 10,94	$ 12,25	$ 13,72	$ 15,36	0,179
Apparel Retail	2,39%	$ 6,96	$ 7,72	$ 8,57	$ 10,71	$ 13,39	0,275
Food & Grocery	2,78%	$ 5,37	$ 6,72	$ 8,40	$ 9,32	$ 11,19	0,275
Home & Garden Products	2,51%	$ 3,57	$ 3,92	$ 4,32	$ 4,75	$ 5,22	0,150
Furniture & Floor Coverings	2,44%	$ 1,81	$ 2,04	$ 2,31	$ 2,61	$ 2,95	0,193
Footwear	2,56%	$ 1,96	$ 2,33	$ 2,78	$ 3,31	$ 3,93	0,273

Regarding the sustainability impact, different criteria for each category was selected. Taking into consideration the level of waste generated by the online retail industry (from packaging to product), recycling was considered as the first criteria. CO2 emissions are another important criterion mainly because of the important distances between the manufacturers, warehouses, delivery facilities and the final consumer. Because of the organization of the supply chain, from manufacturing to delivery logistics, the different segments score differently on those environmental criteria. We have selected three different criteria for the social sustainability. The wage level is present as it generated a lot of controversies, notably regarding the level of wages in the warehouses for the low-skilled workers. The online retail industry players tend to save costs as much as possible to remain competitive, but this affects the wages of their workers. Trade union freedom, the freedom for workers to form unions to defend their rights, is an important issue, again mostly in the warehouse and logistics in general component of the industry. The geographical localization of the companies and/or segments can affect this criteria's scoring. Finally, the working hours are also an important issue when we take into consideration the working conditions and the low wages together. Most segments are negatively affected by the social sustainability dimension. On governance sustainability, we have decided to establish our criteria in function of two important controversies: tax avoidance and data privacy. As we have seen above, the industry's players tend to do aggressive tax planning and use tax heavens, which has generated public discomforts, in particular in the European Union and the United States. Data privacy is another criterion that affects the sustainability of those companies, from the consumers' point of view as well as the legislators.

	Environmental Sustainability		Social Sustainability			Governance Sustainability		Sustainability by Segment	Sustainability Index by Segment
Segments	Recycling	CO2 emissions	Wages	Trade Union Freedom	Working hours	Tax avoidance	Data privacy		
Electrical & Electronics Retail	3	2	3	2	6	1	1	**2,6**	**0,72**
Apparel Retail	4	2	3	2	6	1	3	**3,0**	**0,80**
Food & Grocery	6	4	3	2	6	2	2	**3,6**	**0,91**
Home & Garden Products	6	6	4	4	6	3	4	**4,7**	**1,16**
Furniture & Floor Coverings	5	5	4	2	6	3	4	**4,1**	**1,12**
Footwear	4	3	3	2	6	2	3	**3,3**	**1,00**

Using the different elements analyzed above, the Sustainable Value of each segment has been calculated. It appears as though the Electrical & Electronics Retail segment has by far the highest Sustainable Value score in the industry. On the other hand, Footwear and Furniture & Floor Coverings have the lowest scores. While this is a reality for the industry, one needs to take into consideration that some players in the industry are specialized in certain segments while others pursue their objectives across all segments.

Segments	SL	G	M	R	SU	Sustainable Value
Electrical & Electronics Retail	376	12,71%	2,32%	0,179	0,72	**82**
Apparel Retail	262,4	18,95%	2,39%	0,275	0,80	62
Food & Grocery	175,8	21,49%	2,78%	0,275	0,91	63
Home & Garden Products	129	10,18%	2,51%	0,150	1,16	50
Furniture & Floor Coverings	67,9	12,95%	2,44%	0,193	1,12	23
Footwear	64,5	23,11%	2,56%	0,273	1,00	26

2.3. Microenvironment: Competitors

E-commerce retailers compete in a global marketplace which offer a large variety of product types. As a result, players face an array of competitors from numerous different industry sectors around the world. Currently the sector includes online pureplay and omnichannel retailers. While some e-commerce companies commercialize their product and services over the internet or act as resellers, others take the role of brokers in an open marketplace between buyers and sellers.

From a global perspective, the market is dominated by a few key players where 10 companies represent 54% of the sector. Representing an aggregate market share of 16,6% are 89 companies with individual market shares above 0,0%. Some important online retailers will not be mentioned in this section of the report because they do have global representation.

Competition continues to intensify and evolve rapidly despite the vast growth in value of the online retail sector in recent years. Generally, the retailers have diversified in several sectors and geographies seeking opportunities for growth. New entrants bring new business models and are often well-funded competitors that enter the industry with alliances with established companies in other market segments. The Internet and the advancement of technology facilitate entry in the market and increase the level of competition.

2.3.1. Strategic groups

To understand the competitive environment, firms with similar strategies according to certain variables were identified and categorized. The table below shows the study that was carried out to evaluate the major players in the online retail industry considering the following strategic dimensions: size, product range, quality, price, distribution channels, nature, and internationalization.

company	ranking	market share % value	product range	price	distribution channel	nature	geographical presence
Alibaba Group Holding Ltd	1	16.20	5	competitive	Alibaba.com, Taobao.com and Tmall.com and physical stores	e-commerce company	4.5
Amazon.com Inc	2	14.40	5	competitive	website and numerous regional online portals / international websites physical stores	e-commerce company	5
JD.com Inc	3	10.80	5	competitive	online pureplay retailers	e-commerce company	1
eBay Inc	4	3.50	4	competitive	online pureplay retailers	e-commerce company	5
Walmart Inc	5	2.20	4	competitive	retail stores and e-commerce	multi-channel business model	4.5
Apple Inc	6	2.10	1		stores and e.commerce	multi-channel business model	5
Pinduoduo Inc	7	1.90	3	competitive	online pureplay retailers	e-commerce company	1
Suning.com Co Ltd	8	1.60	3	competitive	retail stores and e-commerce	multi-channel business model	1
Rakuten Inc	9	0.90	5	competitive	core marketplace e-commerce	e-commerce company	1.2
Vipshop Holdings Ltd	10	0.90	4	discount	online pureplay retailers	e-commerce company	1
Coupang LLC	11	0.70	4	competitive	online pureplay retailers	e-commerce company	1
Softbank Corp	12	0.50	1		retail stores and e-commerce	multinational conglomerate holding company	1
Macys Inc	13	0.40	4	competitive	department stores, direct mail catalog and e-commerce	multi-channel business model	1
Naver Corp	14	0.40	2		online pureplay service provider	web portal services	4
Wayfair LLC	15	0.40	2	at different priuce levels	online pureplay retailers	e-commerce company	2
MercadoLibre SRL	16	0.40	5	competitive	online marketplaces dedicated to e-commerce and online auctions	e-commerce company	3
Otto Group	17	0.40	3	competitive	mail order company	e-commerce company	4
Best Buy Co Inc	18	0.40	1	competitive	retail stores and web site	multi-channel business model	2
Qurate Retail Inc	19	0.40	1		e-commerce services	e-commerce company	4
SK Telecom Co Ltd	20	0.40	1		e-commerce services	e-commerce company	2
Target Corp	21	0.30	2	competitive	retail stores and web site	multi-channel business model	1
Beijing Xiao Mi Co Ltd	22	0.30	2		retail stores and web site	multi-channel business model	1
Home Depot Inc, The	23	0.30	1	-	retail stores and web site	multi-channel business model	3
Tokopedia PT	24	0.30	3	-	marketplace platform	e-commerce company	1
Casino Guichard-Perrachon SA	25	0.30	3	competitive	mass-market retail stores and website	multi-channel business model	3
Zalando SE	26	0.30	2		e-commerce company	online pureplay retailers	3
Costco Wholesale Corp	27	0.30	4	competitive	wholesale membership warehouses and website	multi-channel business model	4
Tesco Plc	28	0.30	4	competitive	mass-market retail stores and website	multi-channel business model	3

Figure 6 – Most relevant ecommerce players worldwide

Considering the players captured by the analysis, the data demonstrates that most players operate with competitive prices. High sales volumes and economies of scale allow leading online retailers to reduce prices significantly. On another note, the players are predominantly e-commerce retailers or retail chains that have sought growth through the development of a dedicated online platform.

Three main characteristics that differentiate the companies are size – measured by value market share of the sector –breadth of assortment as well as the degree of international presence. The strategic groups have been mapped in accordance with these variables.

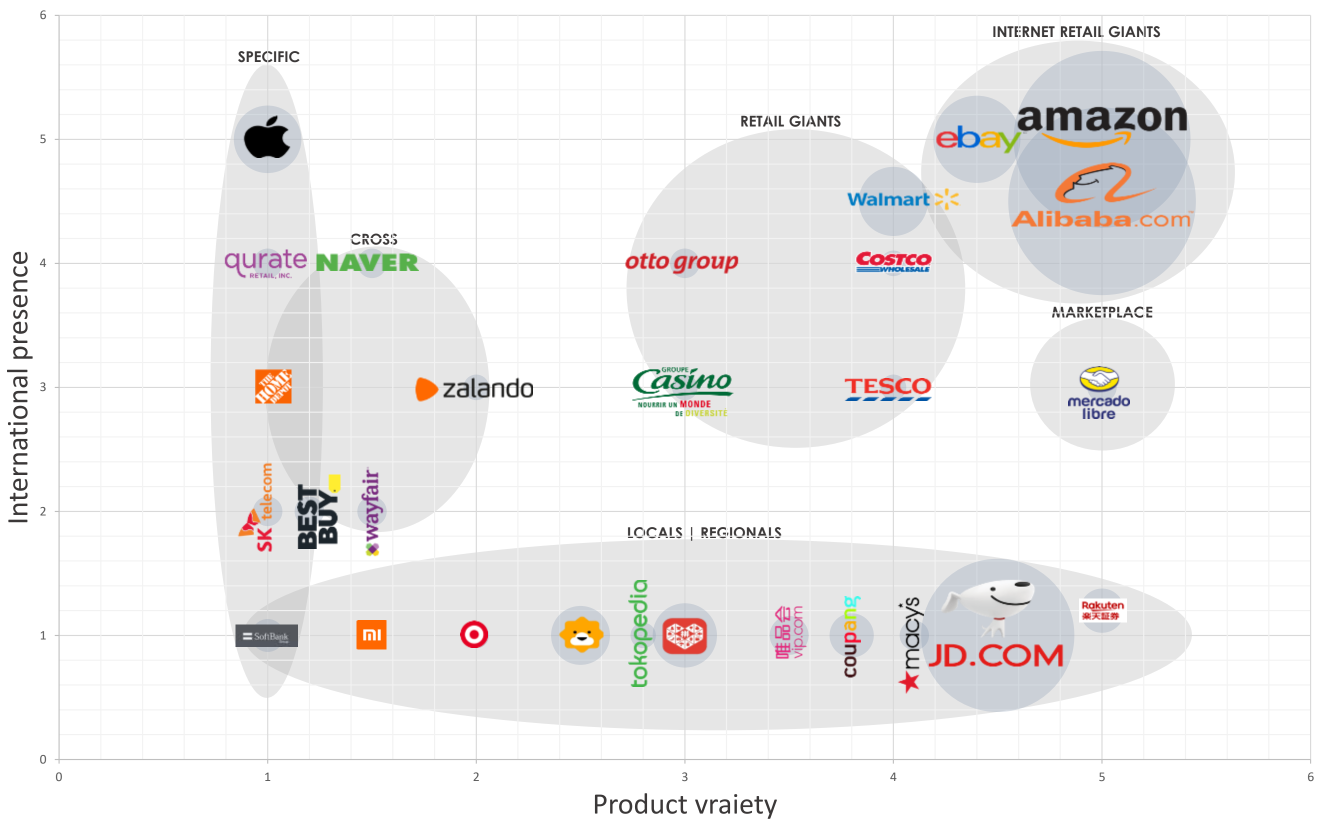


Figure 7 – Strategic groups map

As can be seen from the strategic groups map, six groups have been identified: internet retail giants, retails giants, marketplace players, locals/regionals, cross sector, and specifics. These groups are discussed in more detail in the following section with regards to their composition, relevant assumptions, capabilities, goals, strategy, and investments.

1. Internet retail giants

The internet retail giants are the players contesting for leading player status, with strong international presence and broad product assortment. As per the study carried out, it is composed of Amazon, Alibaba and Ebay. Amazon lost its long-standing leadership position in 2017 to the Alibaba, a Chinese multinational technology company.

The Chinese market average growth of 61% over 2011-2016 has boosted the growth of companies in the Asia Pacific region which currently represent a significant part of the top global e-commerce companies. Alibaba's success has been supported by this trend, as well as the rapid internet penetration in China and its early entry into internet retailing. Alibaba gained a key competitive edge by developing its own digital payment system, Ali Pay, facilitating online transactions for unbanked consumers or early adopters of online shopping. It operates in all the segments and markets through its ecosystem of websites – Alibaba (B2B commerce), Taobao (C2C commerce), TMall (B2C commerce), and Aliexpress (B2C and B2B commerce platforms). Alibaba's leadership position portrays a shift of power positioning it as Amazon's most important direct competitor.

Unlike Amazon and Alibaba, Ebay has not managed to increase its market share in spite of the explosion of online retail competition. Over the past five years, it has been losing ground at a constant rate.

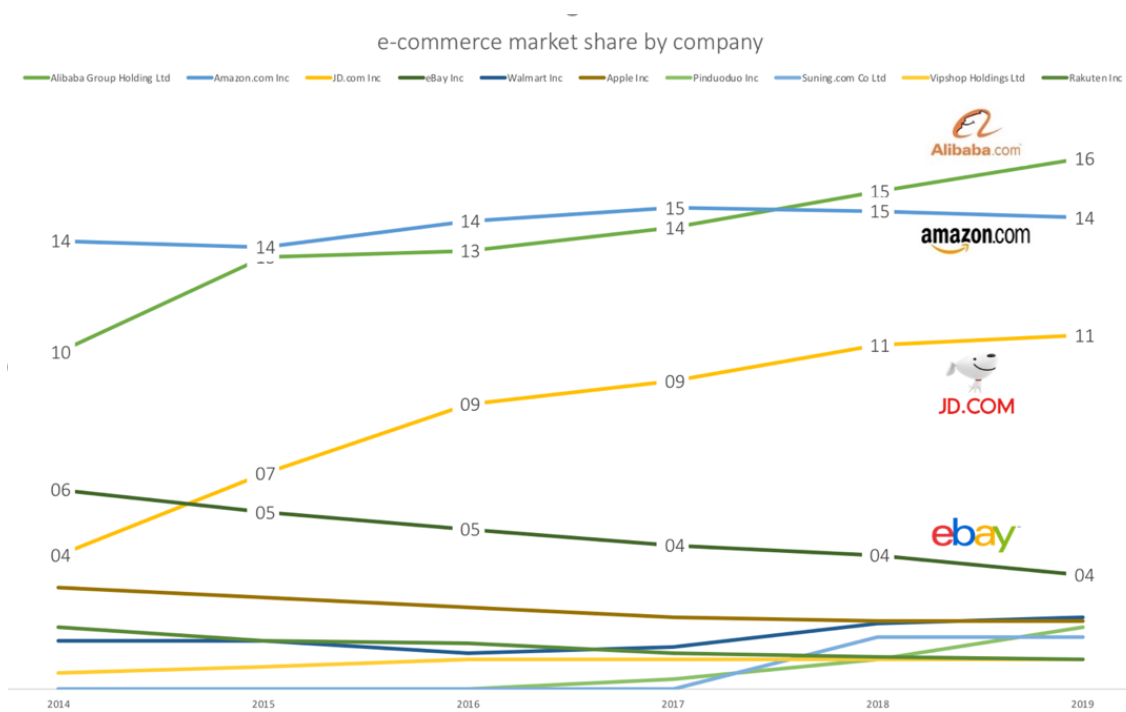


Figure 8 –E-commerce Market Share by company[15]

Retail giants

The retail giants are composed of the world's largest companies that operate as brick-and-mortar retailers that also offer their products online. With a growing international presence and high product variety, it is presently an important competitive force in this sector. The scale and success of their online operations are linked to their international expansion. As per the study carried out, this strategic group is composed by Walmart, Costco, Tesco, Casino and the Otto Group. Horizontal.

Retail giants leverage on a strong brand, economies of scale and physical presence. Walmart acquired the e-commerce site Jet.com in 2016, the largest ever acquisition of an e-commerce company. The power and long-term plans of expansion and diversification makes this group well placed to challenge the leadership of the channel.

[15] Passport: *Amazon.com Inc in Retailing*

Locals/regionals

In this report the locals/regionals can be described as online retailers providing different levels of assortment with limited international coverage. The strategic group is composed predominantly by pureplay online retailers including JD, Pinduoduo, Suning, Rakuten and Vipsho. These e-commerce retailers operate mainly in one market or region, namely the Asian market.

JD has presented the most impressive growth in the past years, as can be seen in the Figure 9, posing high threat to the market leaders. It has a strong growth orientation achieved through the development of important strategic alliances. To attract Chinese consumers, it has joined forces with Tencent, the Chinese social media and internet giant. It has also partnered with Walmart and is leveraging on its brand in China. To widen its product range, it has partnered with Metcash to sell groceries in China and become a leading player in the food and grocery segment. It has also invested in Farfetch, a marketplace for luxury brands, as part of a new strategic partnership. The partnership with Baidu, China's biggest search engine, enhances its digital marketing channels. With Lingang Group it is developing artificial intelligence (AI) in several areas with a focus on consumer behavior. From the technological standpoint JD plans to build 10,000 drone airports, of which 185 are dedicated to delivering orders in the mountainous Sichuan region, where retailing is currently inaccessible.

JD's financial performance has favored its share price in the market, as demonstrated in Figure 10, attracting investors and strengthening is competitive position in the market. The other players in this strategic group represent emerging competitive forces, often backed by strong investors, that may grow successfully out of its original market or be bought by a larger-commerce firm.

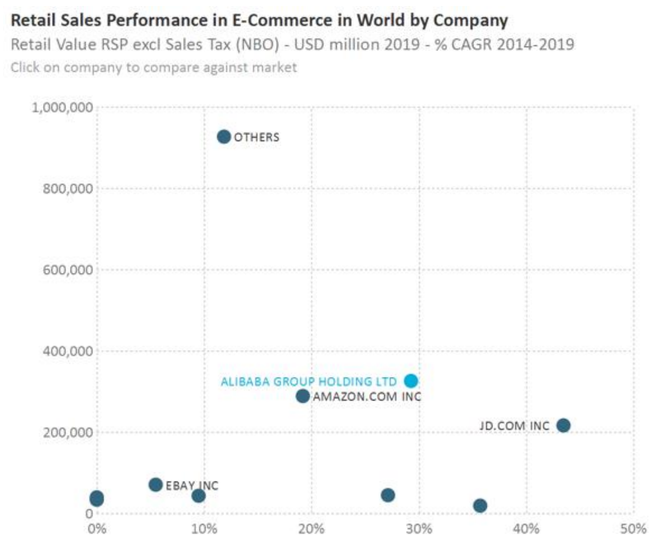


Figure 9 – Online Sales Growth by company %CARG 2014-2019[16]

[16] Passport: *Amazon.com Inc in Retailing*

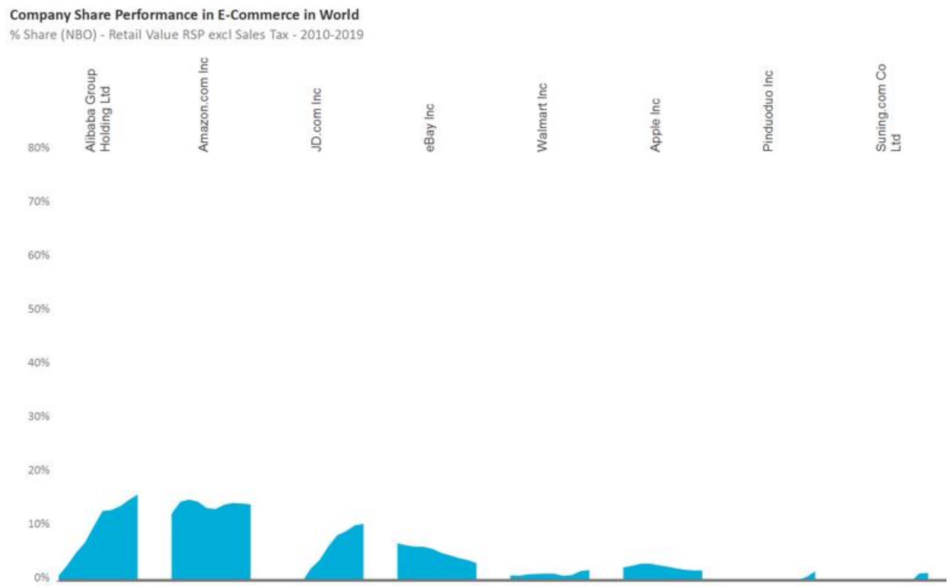


Figure 10 – Online share performance 2010-2019

Marketplace

With the same level of product variety but inferior international presence is the strategic group Marketplace. As per the companies included in this section of the report, this group includes Mercado Libre, an Argentine company that operates online marketplaces in Latin America dedicated to e-commerce and online auctions.

Specifics and cross sector retailers

The Specifics and Cross Sector retailers are mainly characterized by the focus on specific product lines. While some firms offer a wide range of products, this strategic group specializes within a certain segment, providing differentiated offerings, often in the form of high-quality products. The distinguished player in this group is Apple with 5 product lines and global presence. These players pose an inferior threat as their long-term plans and investments are not directed to becoming a generalized online retailer.

2.4. Microenvironment: Suppliers

Suppliers have a big incentive to sell their products on online marketplaces, such as Amazon due to the immediate growth in sales. Due to its big and growing market power, these online retailers tend to have a big leverage on their suppliers. Using Amazon as an example, its rapid growth strategy leveraged the creation of a network of suppliers that can offer a significant product breadth and depth among Amazon's retail categories.

In the online retail industry, the relationship between the supplier and the retailer is mainly defined by the power each one has. It is the party with the most power that will establish the terms of the relationship.

There are four main different suppliers in the online retail sector:

- Logistic services
- Packaging suppliers
- IT systems

- Product manufacturers

The following analysis focuses on the **product manufacturers**, according to Figure 11. A graphical representation of a study by *Marketline* in 2018, there are ten drivers of power with different impacts on the power relationship described.

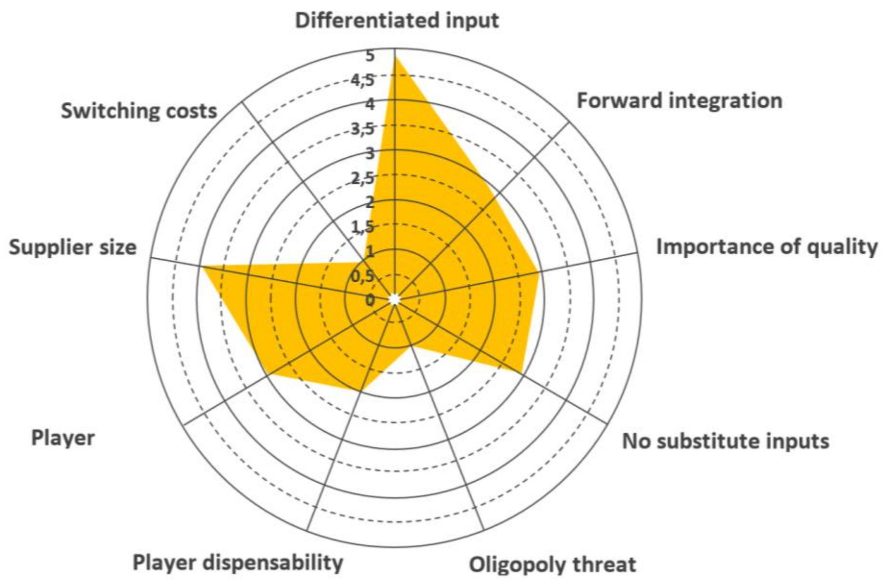


Figure 11 - Drivers of supplier power in the global online retail sector, 2018

Differentiated input – suppliers of differentiated products tend to experience stronger power than those supplying commodities. The brand can also bear a major impact on the bargaining power.

Forward integration – suppliers are expanding into the digital business of e-commerce due to the decreasing difficulty of integration of this operating model.

Importance of quality – the quality of products can be a differentiating factor, increasing the supplier power.

No substitute inputs – having no substitute inputs means a higher degree of power for the supplier, since the retailer has more interest in having the products available.

Oligopoly threat – the fact that the supplier is within an oligopoly does not represent a threat to the supplier (unless of course there is any sort of collusion involved)

Player dispensability – refers to the difficulty in replacing a supplier. Not being a strong source of power, it still represents a considerable pain for the retailer having to find a new functioning supplier.

Player independence – selling to multiple retailers boosts the power for the supplier, although the loss of a major retailer (such as Amazon) might create a considerable impact on sales.

Supplier size – a considerable source of power for the supplier. As the retailer size is a major source of power, the same goes for the supplier. A bigger size means more reliability, more efficiency, more breadth of products, etc., all characteristics valued by the retailer.

Switching costs – a low factor of power, since the costs related to switching suppliers are very low for the retailer.

2.5. Microenvironment: Industry

2.5.1. Industry Value Chain

As an intermediary between manufacturers and consumers, the online retail's value chain is complex. We will here describe the main sequences and players of the industry's value chain.

The **product developer** develops products for online retailers' private labels.

Manufacturers produce the products for online retailers' private labels. Online retailers can perfectly function without the two players just mentioned but as we will see later, vertical integration can in some cases lead to this sequences.

The **Sellers** are the main suppliers of online retailers and sell their products and/or services on the website.

The **packaging** and the **warehouse** are part of the logistics key components of the retailer that can distinguish themselves from competitors through the efficiency of the logistics. **Inventory management** is a notably a key sequence as it is a key element of an efficient supply chain. This is important for suppliers to manage demand and for consumers willing to receive rapidly they purchases.

Marketing can be a valuable element of the chain as the data provided by the consumers on the website can be utilized to do either general marketing based on aggregated data or targeted marketing on the basis of individual consumer behavior.

Pricing is also a valuable element of the chain as the powerful algorithms of online retailers allow them to adapt the prices quickly and actively to the market. This is something that 3rd party retailers and sellers notably value as it can give them an edge on their consumers.

The **IT Systems** should here be understood as the general ecosystem that enables retailers to have powerful websites (including in terms of pricing and marketing) and consumer and seller friendly online environment. It is therefore an essential element of the value chain.

The **payment system** is part of the website interface and needs to be reliable for both the consumers and the sellers.

Those sequences all lead to the **website**, which is in essence the intermediary between sellers and consumers.

The **shipping and delivery** are two activities, sometimes performed by the same player, sometimes even the retailer itself. They are essential as successful retailers, as we will see in the key success factors, must be able to deliver quickly and efficiently to the consumers.

Finally, the **consumer service** puts in contact the consumer with either the seller or a third-party service. It can be performed by the retailer itself. If the consumer wants to return the order, the logistic operation goes backward and is triggered by the customer service.

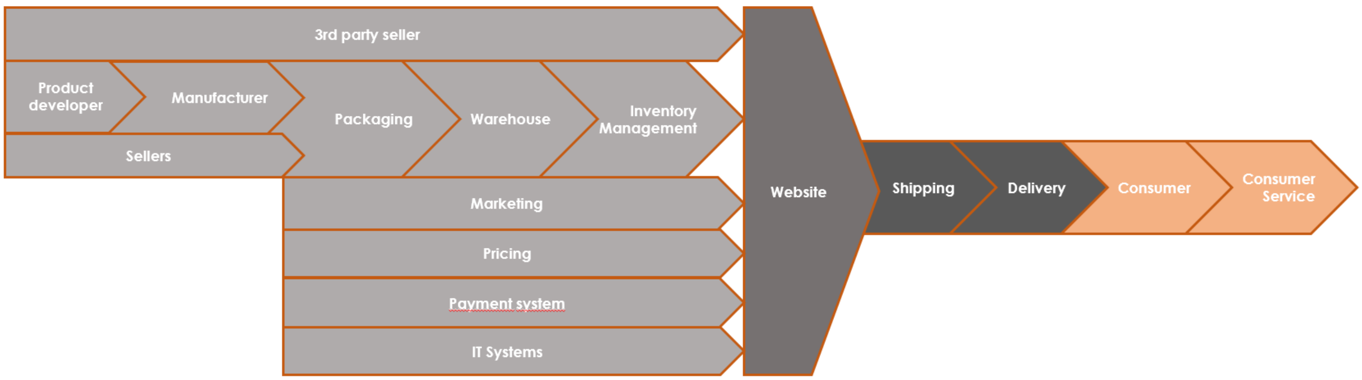


Figure 12 – Industry value chain

2.5.2. Life cycle

Online retail is growing steadily and is expected to continue growing in the coming years. However, the pace of the growth may decelerate in the short to mid-term, as the industry enters the mature phase of the life cycle in certain regions. Online retail achieved a global revenue of $1,191.9 billion in 2018[17], which represents a compound annual growth rate of 17.8% between 2014 and 2018. The overall sector's growth rate is expected to slow down to 14.6% annually between 2018 and 2023, which would bring the revenues to $2,359.3 billion by the end of 2023.

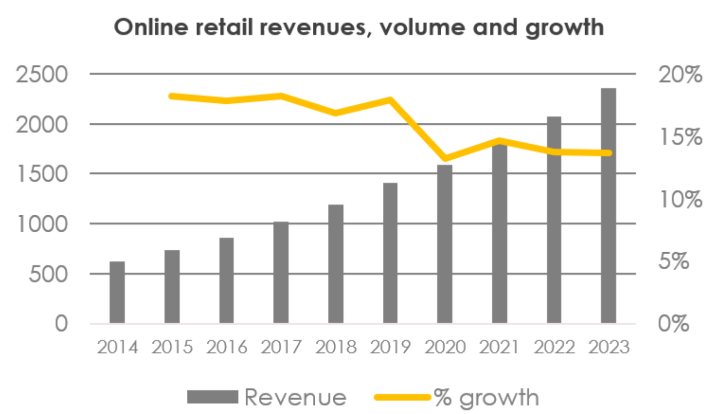


Figure 13 - Online retail revenues: volumes in $ billions vs. percentage growth, 2019-2023 based on estimates[18]

A regional analysis provides a clearer picture of the industry's life cycle. Indeed, online retail has historically been stronger in the United States and Western Europe because of higher disposable incomes, and greater internet penetration. In Europe and the US, it can be argued that the industry is maturing, as the growth comes from the frequency of transactions rather than penetration. Penetration has reached a maturity level in most developed

[17] *Marketline Industry Profile: Global Online Retail*
[18] *Marketline Industry Profile: Global Online Retail*

countries. On the other hand, the Asia-Pacific region and China in particular is growing fast, contributing to the success of local players, and has generated $469.7 billion in revenues in 2018. Asia-Pacific and South America still have space to grow, both in transaction frequency and market penetration. In those regions, broadband access and income growth will be the key drivers of growth as well as improved infrastructure for logistic services.

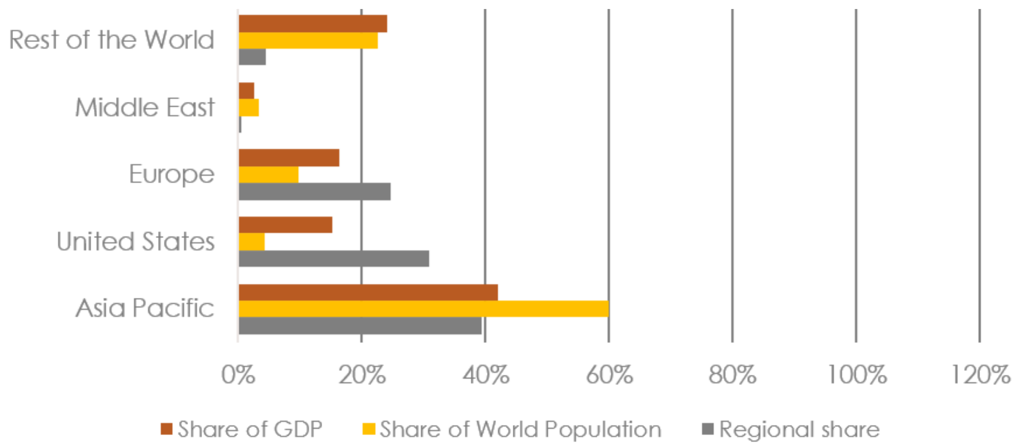


Figure 14 - Online retail revenues per region (share of the world, 2018)

2.5.3. Concentration level of the market

While at the global level the online retail industry can be considered as moderately concentrated, there are two facts that should be noted. Firstly, the level of concentration is increasing as the three main companies, Alibaba, Amazon and JD.com have almost doubled their combined market share in the past nine years.

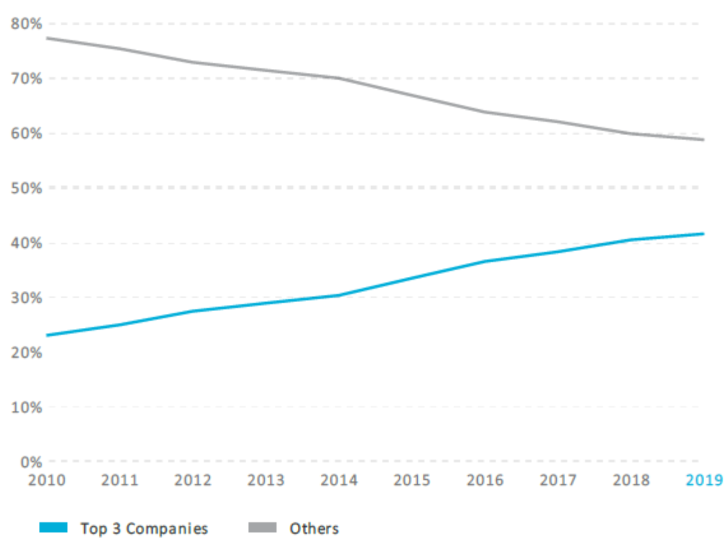


Figure 15 – Market concentration (% share) of Top 3 companies: Alibaba;; Amazon; JD.com

Secondly, the level of concentration varies amongst markets. For instance, in US, Amazon owns 49.1% share of online retail[19], followed with a good distance by Ebay (6.6%) and Apple (3.9%). In China, on the other hand, and

[19] Ingrid Lunden, *Amazon's share of the US e-commerce market is now 49%, or 5% of all retail spend*

according to a report by eMarketer, Alibaba has 55.9% of market share but faces the serious competition of JD.com (16.7%), and Pinduoduo (7.3%).

This situation of different market concentration levels in different markets might be temporary, as there are no geographic barriers and no cost to switch for buyers, making the competition more aggressive between online retail giants. However, the high barriers to entry and exit in the market make online retail likely to be a highly concentrated industry.

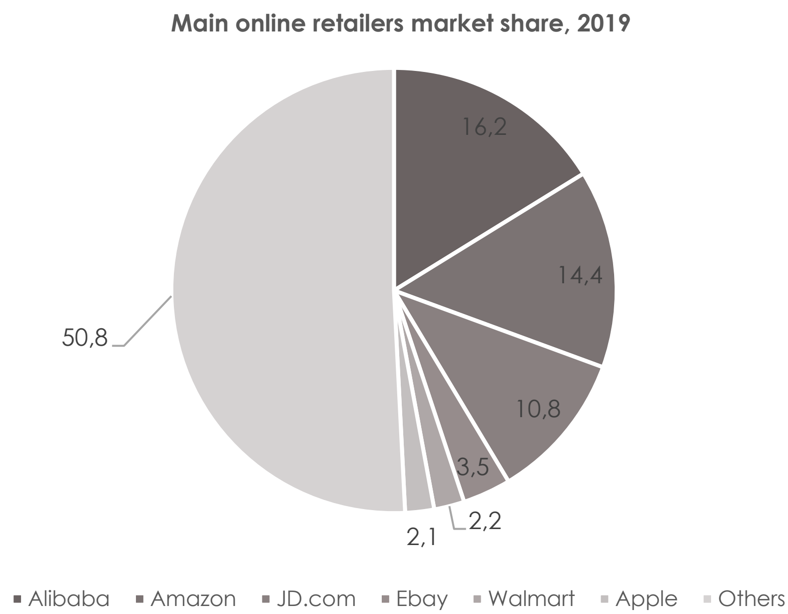


Figure 16 – Market share of online retailers

2.6. Key success factors

Within the industry, there are certain variables that can strongly impact the overall competitive position of key players in the market, and the concentration of the market as a whole. These variables can also be referred to as key success factors and are critical to ensure a company's success in its field. Given the aforementioned environmental factors, online retailers' main focus is attracting consumers.

Consumer	Competitor	Key Success Factors
Price	Price	Competitive operating costs
Web experience	Web design and data exploitation	Innovative web management and data mining
Convenience of delivery and return	Delivery and return time and reliability	Efficient and integrated logistics management
Variety of products and services	Products and services range	Wide products and services range
Security	Payment system and sellers' validation	Reliable payment and sellers' validation system

Competitive operating costs: For consumers, online retails are attractive if they offer prices that are comparable with traditional or physical retailers. Competitors in this market will therefore compete on price and will use the economies-of-scale in purchasing, inventory management and customer services to have competitive price. The first key success factor is therefore the operating costs, which allows companies to be competitive on prices as fewer costs need to be passed on to the consumer.

Innovative web management and data mining: For consumers, online retailers are attractive if the online platform allows the buyer to easily find the product they are looking for, if it is easy to navigate and if it is personalized. Competition will therefore take place on the web design and through data mining, which allows for a hyper-personalized experience and individual marketing opportunities. As a result, the second key success factor is web innovation, which allows quality web experience for consumers, and consumer tailored web experience, and the development of consumer behavioral insights.

Efficient and integrated logistics management: For consumers, it is essential to have access to a quick and efficient delivery and return system. Consequently, competitors will offer a comprehensive customer service that includes rapid delivery and return through and efficient logistic system. The third key success factor is the logistics management that must be efficient (through integration) and service-oriented, including flexible and reliable delivery and return services.

Wide products and services range: For consumers, online retailers are attractive if they offer a variety of products and services. Competitors will therefore develop offers in different categories of products and services. The fourth key success factor is to have a wide range of services and products.

Reliable payment and sellers' validation system: For consumers making online purchase, it is essential to have a secure system of payment and delivery. This notably includes the importance that the product purchased is indeed the one that the consumer received and is not a fake. Competitors will therefore offer secure and trustworthy systems of payment and sellers' ratings systems. The fifth key success factor is the seller validation and rating in parallel to a secure payment system.

The above key success factors are not just critical to a company's success in online retail, they are also what consumers have come to expect from e-commerce businesses. Strong positioning in each of these areas is crucial to retain and entice new consumers.

3. Business model and sustainability

3.1. Business Model

Considering the above environmental analysis of the online retail industry, Amazon has been able to capture a vast customer-base through an economies-of-scale driven business model, offering low prices over a wide selection of goods, and convenient delivery options through an extensive logistics infrastructure. Selling over 12 million products through its fulfilment centers and third-party sellers, Amazon falls under what *Wheelen et al* describe as a Switchboard model[20].

At the core of Amazon's business model is its customer-centric focus. Using the below **Business Model Canvas**, the relationship between the company's key capacities and its value propositions becomes apparent.

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
Sellers Suppliers Logistics	E-commerce web development Warehousing Logistics	Selection Price Convenience	Reviews allow for increased transparency Hyper-personalization	Vast, mainly anyone with internet access Technologically and digitally literate Some disposable income
	Key Resources Vast customer base Digital and technological infrastructure Fulfillment centers	**Customer experience**	**Channels** amazon.com and related subsidiaries such as Alexa and the Kindle	
Cost Structure Economies-of-scale reinforced through continuous innovation and automation Reduced physical locations reduces costs			**Revenue Streams** Online sales and transactions Commissions from third-party sellers Subscription fees	

As an online retailer, Amazon serves a customer base as wide as its product selection. The common thread between an Amazon customer is that they have internet access, are somewhat technologically literate, and have a relatively disposable income – though the low-price guarantee makes the latter a bonus. The lack of a brick and mortar structure allows prices to be kept relentlessly low, and as a result, customers are attracted to its competitive pricing. In fact, one of Amazon's key approaches it to grow through volume, rather than through margin. A feature of the business model is the scale at which Amazon is able to operate, offering optimal efficiency in shipping, delivery, and customer service. As demonstrated through the company's overarching virtuous cycle, the interaction between selection, price, and convenience drives the company's growth, and contributes to its increasing revenues.

[20] Wheelen et al, *Concepts in Strategic Management and Business Policy,* p. 169

A key factor in Amazon's ability to reach its consumers is of course its website, but Amazon have invested heavily in creating other complementary transaction touchpoints, such as the automated home system Alexa, or its first foray into hardware, the Kindle.

In 2019 alone, Amazon was able to generate reached $141.25 billion – a 15% increase from 2018 – from its e-commerce site alone, as a result of its operating model: a network of warehouses and fulfillment centers to maintain and distribute orders from its increasing customer base; and monetizing the access to customers they provide to third-party sellers.

Its online format contributes to a healthy cash conversion cycle, or as referred to by the company in their annual statement, a "cash-generating operating cycle." The velocity at which the business operates means that the company "generally collects from consumers before our payments to suppliers come due."[21] This relationship is outlined more clearly in the below, which details Q4 in 2019[22].

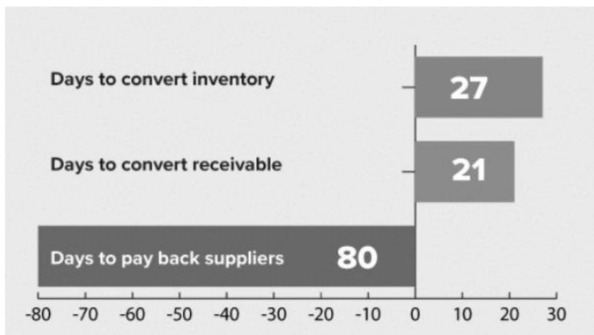


Figure 17 – Amazon Cash Conversion Cycle, 2019 Q4

In order to keep up with demand and maintain – or even increase – the 32-day period in which the company can spend the cash generated through revenues, Amazon continually works to maximize efficiencies in its supply chain. Its fulfillment centers, for instance, operate on a predictive stocking system using Big Data available to the company through its vast customer base. For any products not already in its standard inventory, the company will work with the producer rather than the wholesaler to ship the product directly to the customer. Alternatively, Amazon can use the backstock they also store from third-party sellers listed on Amazon's marketplace.

To support Amazon's capacity to predictively stock, the company not only uses customer purchasing history and hyper-personalization, it also heavily invests in AI technologies. Amazon's $23 billion in investments in 2019 serves as a stark reminder of the lengths the company goes to in optimizing its operations. Amazon's extensive reinvestment into R&D to maximize efficiencies and optimize the customer experience is indisputably one of its competitive advantages, but another key channel in which the company invests significantly to increase customer traffic is in advertising and promotional costs. In 2019 alone, the cost of these investments into communications came in at $11 billion.

3.2. Sustainability

Amazon's impressive track record in innovation has allowed it to capture increasing customer segments and become firmly engrained in the everyday psyche of consumers. Other trends that are becoming more present in

[21] Amazon 2019 Annual Statement
[22] Gary Fox, *Amazon Business Model*

the mindsets of consumers – and indeed, shareholders – are sustainability and corporate responsibilities. Growing pressures from these players, and regulation entities as explored in the PESTLE analysis, have led to companies such as Amazon needing to comply with certain sustainability measures.

As of January 1, 2019, Amazon has been included on the Down Jones Sustainability Index (DJSI) Invited Universe 2019[23]. This certified list is **a gold standard for corporate sustainability** – a great achievement for the company, particularly when considering the criticism it has faced in recent years.

According to the CSHHub, which seeks to provide "consistent ratings of Corporate Social Responsibility (CSR) performance for as broad a range of companies as possible" based on a long list of renowned data sources, Amazon received a CSR ranking percentile score of 67. Amazon's rating has improved along with that of its industry, which in this instance has been classified as Electronic Shopping and Mail-Order Houses.

Figure 18 – Amazon's CSR ranking, 2019[24]

In its recently published Sustainability Report, Amazon claims to be "building a sustainable business for its customers and the planet."[25] The report has a focus on climate change, energy efficiency, renewable energy, sustainable transportation, responsible supply chain practices, waste reduction, recycling, circular economy, and sustainable products.

In the following chapter Amazon's sustainability strategy will be evaluated according to the following points:

- Environmental sustainability
- Social sustainability
- Governance sustainability

3.2.1. Environmental sustainability

Amazon has recently displayed interest in the protection of the planet through commitments and concrete actions, as briefly outlined in the **PESTLE Analysis**. Amazon's corporate carbon footprint was measured to obtain the total impact on the climate emissions attributed to its direct and indirect operational activities.

[23] DJSI/CSA Annual Review 2019
[24] (CSR) & Environment, Social, Governance (ESG) Metrics
[25] Committed to a sustainable future: Amazon Sustainability Report

Amazon's total footprint for the 2018 fiscal year was 44.40 million metric tons CO_2e. This information was used to develop reduction goals such as those announced in September 2019 under the **Climate Pledge**, where the company committed to meet the Paris Agreement **ten years before the final date**.

Amazon is committed to the following objectives:

1. **Net zero carbon across businesses by 2040.**

2. Reach **80% and 100% renewable energy** across its global infrastructure by **2024 and 2030**, respectively. The company's renewable energy projects are expected to generate over 2,900 megawatt hours per year.

3. **Make 50% of all shipments net zero carbon by 2030**. Amazon's long-term ambition is to make every shipment net zero, end-to-end, from fulfillment, transportation and packaging.

4. Significant investment has also been directed towards on-site solar systems to power fulfilment centers, and the company have ordered **100,000 fully electric delivery vehicles**.

5. In terms of packaging and production, redesign is taking place to reduce waste and to manufacture private label products in responsible ways.

The company seems committed to its sustainability policies. Amazon is "minimizing waste, increasing recycling, and providing options for its customers to participate in the circular economy"[26]

3.2.2. Social sustainability

Logistics is a core function in Amazon's business. Embedded in its corporate management priorities, the focus on efficiency has set the company's goal towards reducing production costs by reducing the ratio between space and goods - the less time a product spends in a warehouse, the more its value increases. The work involved in this process such as that of drivers, handlers, deliverers and warehouses is key to generate value and profit. Technology has supported the improvement of logistics performance to the point where goods can be manufactured as required by the market. The result of this evolution is the increased control over productivity, which ultimately weighs on working times and workers themselves[27].

Though Amazon has often been lauded for its customer-centric approach, this has at times come at the expense of its employees further down the value chain. In order to fulfill orders quickly, efficiently, and at a low cost, Amazon has been accused of placing its value proposition ahead of the welfare of its staff in warehouses and fulfilment centers. Trade unions have informed about the exhausting working days where stock takers are required to register at least 300 items per hour and "run" and estimated 20 kms per day. Additionally, the work pace it monitored by electronic surveillance via ID tags and CCTV and productivity is calculated based on algorithms. With overtime and no rotating shift and high level of work-related accidents, Amazon's social responsibility has been put in question. [28]. In 2018, as press investigations and consumer activism in the US began to gain traction, Amazon increased the minimum wage for all warehouse workers to $15 an hour – well above the average national minimum wage of $7.25. While the company maintained this increase had not been in response to heightened criticisms, many

[26] *Committed to a sustainable future: Amazon Sustainability Report*

[27] Andrea Iossa*, Work according to Amazon*

[28] *Ibid.*

workers have since claimed that actual conditions have not changed, with poor work-practices at the warehouses, and higher working demands[29]. Further, in exchange for the wage increase, monthly bonus schemes and a right to Amazon shares were scrapped.

Illustrative images of workforce discontentment

In response to these allegations, a spokesperson said, "Simply put, people would not want to work for Amazon if our working conditions truly were as our critics portray them to be during this period of record low unemployment and plentiful job opportunities. But 250,000 people choose to work for Amazon in our fulfillment network."[30]

As of late, however, and in accordance with their Sustainability Report first published last year, Amazon has begun communicating a strong position of respect for people through its operations and by its commitment to communities: "Amazon is strongly committed to conducting its business in a lawful and ethical manner, including engaging with suppliers who respect human rights, provide safe and inclusive workplaces, and promote a sustainable future."[31]

Throughout the supply chain, Amazon sets further high standards for its operations derived from the United Nations Guiding Principles on Business and Human Rights. The key commitments include safe workplaces, freely chosen employment, empowerment of women into quality jobs, fair wages, and environmental harm with respect to people and communities. Amazon is active in initiatives to support people and communities through sustainability ambassadors, affinity groups, inclusive culture and encouraging entrepreneurship. Further information is provided under Value Creation for Communities.

[29] Michael Sainato*, Revealed: Amazon touts high wages while ignoring issues in its warehouses*
[30] *Ibid.*
[31] *Ibid.*

In light of some of the above controversies, Amazon has also been helping millions of people around the world impacted by natural disasters. Its commitment to the COVID-19 pandemic is notorious. A few examples include:

- The launch of a $20 million AWS Diagnostic Initiative to accelerate research;
- A donation of €21 million to Europe in support of those most affected by the pandemic;
- A donation of $100 million to Feeding America, by Jeff Bezos

3.2.3. Governance sustainability

In terms of the supervision of the company, Amazon seeks to integrate sustainability practices into its operations through goals, metrics, and reviews. Its programs are aligned with the 17 UN Sustainable Development Goals. These programs are supported by partnerships and collaborative initiatives.

While Amazon has pledged to become a more socially responsible and sustainable company, it does still attract significant criticisms pertaining to its warehouse conditions, the treatment of workers, and the source of its products. With that being said, the above steps show a company moving in the right direction and using its status as not just a retail giant, but as a general market leader to encourage others to follow suit. Building on the conclusion set forth after reviewing the industry's environment, consumers are becoming much more aware of the human costs of a digital shopping experience. As a result, one could argue that in order to enhance the customer experience even further, continued efforts into sustainability are needed. In the future, Amazon may indeed incorporate some of the above initiatives into their existing flywheel, to benefit the consumer, and the employees that contribute to the cycle.

It should also be noted that as the purpose of this report is to delve into the strategy of Amazon, rather than predict or recommend its growth, the Value Creation Aggregator has not been calculated.

4. Organizational Structure

An organizational structure defines the design and system of interactions among members of the firm. Amazon's corporate structure enables control over its global e-commerce operations while supporting geographical expansion and product and service diversification. Its design is intended to complement its technological foundation.

4.1. Composition

Presently, Amazon has an advanced macrostructure, with functions, divisions, and strategic business units. The company is essentially divided by global function-based groups. It includes general functions such as Legal, Secretary and Finance but also has strategic business units which refer to different business segments such as the International Consumer Business and AWS. The main global function-based groups are as follows:

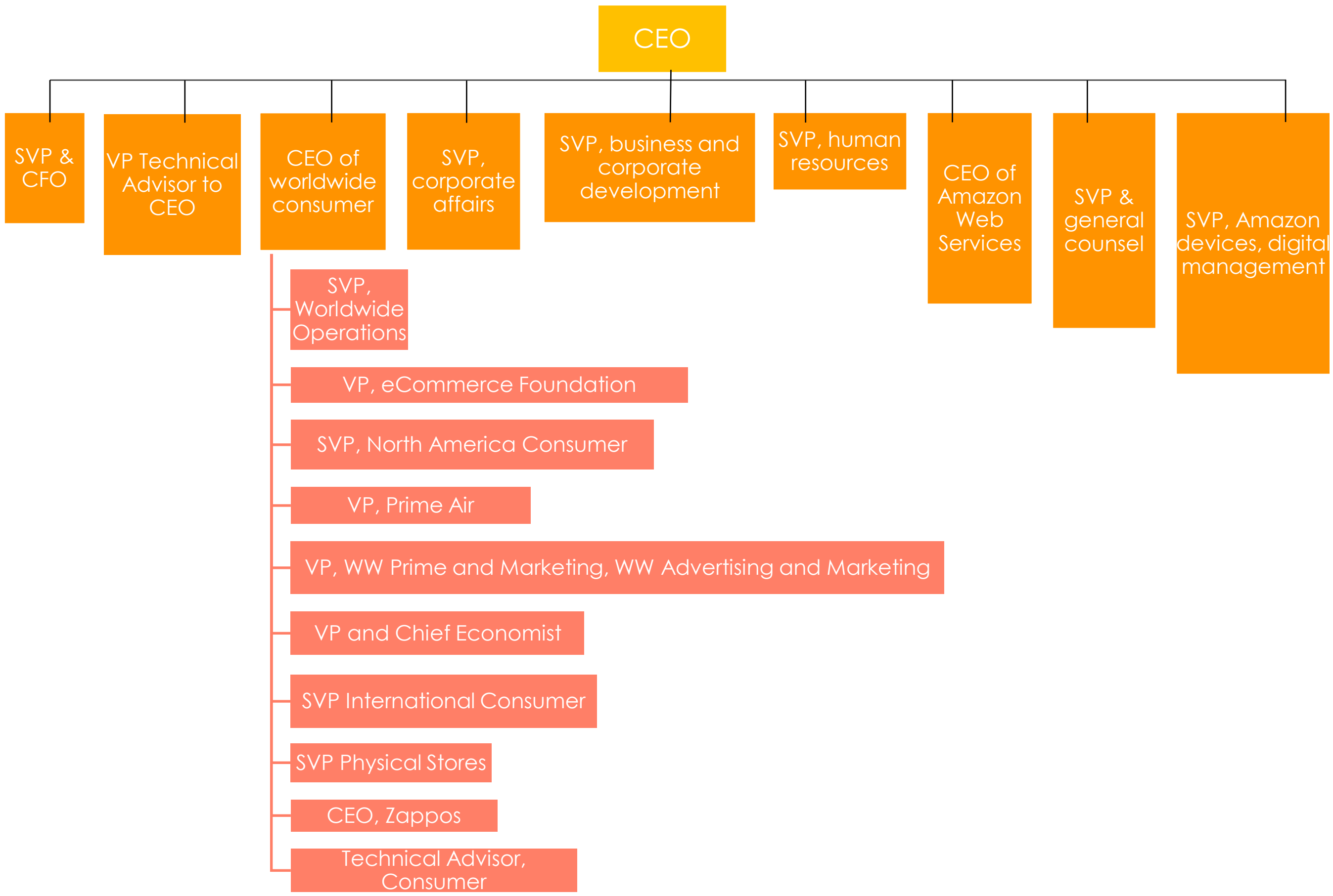
- CEO office
- Business Development
- Accounting
- AWS
- Finance
- International Consumer Business
- Consumer Business
- Legal and Secretary

This is a strong characteristic of the company's organizational structure. Each major business function has a dedicated group with the strategic objective to facilitate successful operations management throughout the organization.

Figure 19 – Jeff Bezos

The below hierarchy chart corresponds to function-specific based roles, i.e. an organogram. Detail was provided considering the scope of the report. Jeff Bezos and a team of nine directors form the top leadership of Amazon, followed by a second level of management. "Unlike other tech giants that saw a series of executive departures or varying degrees of reshuffles last year, Amazon's executives at the highest level largely remained unchanged."[32]

The stability in Amazon's governance has been considered one of the key reasons for its success.



Amazon's structure is hierarchical as a result of its size with over 798,000 Amazonians worldwide. This traditional structural characteristic means that it has a global system of vertical lines of command. A global based directive is applicable throughout the organization, impacting all relevant business segments. The strategic objective is to facilitate managerial control of Amazon's entire organization. While able to implement managerial directives rapidly and effectively, the dominance of the global function-based groups and global hierarchy can be limiting in terms of flexibility and responsiveness.

The second level of management is composed of functions, more specific business segments and geographic divisions. It is structured in a way to grant some level of autonomy and flexibility to the business. The SBU characteristic preserves decentralization and flexibility while facilitating coordination. In the consumer segment as well as in others, Amazon is divided into two divisions: North America and International. The International Retails Officer has branches in China, Europe and India, the most populated regions of the world. This structure facilitates the management of its global e-commerce business. It can address geographic specific preferences, issues and concerns. This structure has effectively supported its international expansion demonstrating its adequacy to the company's strategy. **Although large, Amazon remains flexible to respond to environmental changes and lead**

[32] Eugene Kim, *Amazon's executive org chart, revealed*

innovation in the market. Below the global based functions and lines of reporting are many small decision-making teams. Bezos' two pizza rule determines that meetings should be small enough in number of participants to be fed by two pizzas.

In a nutshell, its global functions and hierarchy facilitate managerial control and maintain cohesion, while its divisions and strategic business units provide it with flexibility to respond to the external environment.

4.2. Development

Amazon's structure has evolved in accordance with its strategy. When the company was founded in 1994, its structure could be characterized as a basic macrostructure where it took the form of a simple structure organization. Bezos decided to create and manage the firm with a narrow proposition which was the internet bookstore. Funded by the founder and by contribution from family and friends, the company had drive and flexibility, organized by small segments.

The rapid growth of the company soon resulted in the development of a functional structure where professionals from different functions were responsible for different management areas. Being highly funded from outside investors and as it went public in 1997, the firm gained organizational formality in the way they do business.

As the company began to diversify into related markets such as music and videos, and have operations internationally in 1998, its functional structure developed and incorporated divisions such as North America and International. The development of strategic business units followed as it diversified into unrelated businesses such as the Amazon Web Services (AWS) created in 2002 for marketers and developers. This business segment has an organizational structure on its own including a CEO, Finance, Sales, Marketing, and International Division etc.

5. Organizational analysis

Now that the context of Amazon's strategy has been reviewed, the next objective is to define its strengths and weaknesses, and the opportunities Amazon should consider in its strategy looking forward. Firstly, Amazon's resources and competencies will be analyzed in order to determine which of them are the main competitive advantages of its current business, and how they strategically fit with the key success factors of its targets. After this analysis, a new SWOT analysis will be presented in order to establish the future opportunities for Amazon.

5.1. Resources and capabilities

Resources are an organization's assets including tangible assets, such as its **physical resources**, **financial resources,** and **human assets**, but also by its intangible assets, such as organizational assets as patents, brand equity or reputation. The following table summarizes the most relevant resources of Amazon.

Resources	Description
Human	• 798,000 employees • Jeff Bezos • Investment in performance improvement plans • New training programs • Extensive benefit program
Financial	• Revenue of \$280.55 billion • Revenue of \$245.5 billion (online retail) • Accumulated cash of \$36.09 billion • Current liabilities of \$87.81 billion • Long-term liabilities of \$75.37 billion • Total stockholders' equity of \$62 billion
Physical	• +\$72.7 billion in property plant and equipment • +175 warehouses/fulfillment centers (13 million m^2) • +30,000 vans and trucks in its fleet • +50 aircrafts (Boeing 737 and 767) in its fleet • Physical retail stores, including Amazon Go, Whole Foods
Organizational	• Estimated brand equity of \$315.5 billion • 2,396 patents owned

Table 1 - Amazon's Resources

1. Human Resources

With an employee headcount approaching 800,000, Amazon is one of the top-10 private employers in the world, behind the likes of Walmart and Volkswagen. Having reached this figure in less than 25-years, the scale of Amazon's workforce is telling, particularly when grouping it next to other retail or industry giants who have a long and established history.

In the last ten years alone, its workforce has increased by over ten times, from 56,200 employees in 2010, to 798,000 at the end of 2019. Amazon's human capital consists of those who can deliver the company's customer-centric focus, with a particular focus on "**technical skills and an always learning mindset**."[33] A look at Amazon's hiring strategy is indicative of its larger goals, with an emphasis on jobs that can build on its technological capital,

[33] Amazon, *A look at our changing work force*

with the fastest-growing jobs being data scientists, data mapping specialists, and fulfillment center employees, as per Amazon's own analysis below.

Figure 20: Analysis of hiring data of Amazon's U.S. workforce[34]

Though Amazon is clearly able to attract talent to realize its diversified portfolio, Amazon's HR management has been receiving increased negative press as of late. With the significant growth of its workforce, the level of care may have been disregarded in some areas. Further insights into poor working conditions and HR management are discussed under **Sustainability**. Aware of this negative perception, Amazon has built on its benefits for employees, and developed new performance and training plans to increase employee satisfaction.

Of their 798,000 strong workforce, 500,000 are located in the US. In the US, employees are enticed through a series of benefits including generous healthcare coverage, 401k contributions, restricted stock units (RSUs) and training programs. For contracted employees, for instance, Amazon offers what is known as the **Career Choice Program.** The program pre-pays 95% of tuition and fees for associates to earn certificates and associate degrees in high-demand occupations35. Other initiatives include Career Skills, where employees can take part in free, onsite training in areas such as Excel, CV workshops, and public speaking. A2Tech is a "training opportunity for fulfillment associates with interest in IT support"36, targeting mainly those workers who may not have been able to get a role in tech without this kind of initiative. These programs, along with further insights into value creation for employees, can be found under **Objectives and Strategy**.

2. Financial Resources

As mentioned across this report, Amazon recently received a market cap valuation of $1 trillion. Its total revenue from its core e-commerce business alone was $245.5 billion – which in terms of scale outperforms the GDP of Portugal or New Zealand – a close to 20% increase from 2018.

Amazon has presented strong, growing financials in the past few years. The company uses these steady revenue streams to invest in technologies, R&D, acquisitions, and additional PPE to realize the company's goal of building on its own logistics infrastructure. By feeding its economies-of-scale business model, and reinvesting its revenues

[34] Amazon, *A look at our changing work force*
[35] Amazon, *What is Career Choice?*
[36] Amazon, *Training*

into capturing more consumers, the company has a relatively low profit margin. As will be explored in greater detail, this is line with Jeff Bezos' overarching notion that growth is achieved through volume, rather than margin.

3. Physical Resources

As of 2019, Amazon's property and equipment was worth $96 billion, and is set to increase as further investment is made into physical resources. Further to the financial investment made into the extensive physical resources at Amazon's disposal, the company currently has 175 operating fulfilment centers, spanning close to 14 million square meters. Beyond the impressive expansion into its fulfilment centers, Amazon has also invested in its own truck and delivery fleets, including **Amazon Air**, the company's cargo airline, and **Prime Air**, a possible drone-delivery service five years in the making.

The expansion of its digital operations into the physical is not just limited to the ability to the supplier end of the value chain, it has also represented Amazon's transformation into an omnichannel business. Its physical grocery store, Amazon Go, has 21 locations in the US as of December 2019, and its 2017 acquisition Whole Foods has a more international presence, with close to 500 stores across the US, Canada, and the UK. Further insights into these expansions will be explored under **Products Markets**, but are important to consider here as they act as a physical resource by increasing a consumer's touchpoints with the company.

4. Organization Resources

Amazon keeps pushing the brand to new levels of equity. The **strong marketing strategy** combined with a big **focus in being an innovation leader** in multiple sectors of the industry has created a recognizable, growing value for the company. Companies integrate their various resources to develop the management capabilities required to undertake their activities and create sustainable value. These distinctive capabilities are communicated to the public to build the image of the brand or can be identifies within the company's reports and strategic moves.

Company Area	Capability
Human Resources	• Career plan and employee training
Marketing	• Accumulated expertise on e-commerce retail • Extensive skills in digital marketing
Customer Service	• Wide range of options for ordering, returning and delivery • Multichannel digital experience
Accounting & Finance	• High market capitalization
Distribution	• Proprietary delivery service (land and air) • Strategic network of warehouses and distribution hubs distributed internationally • International network of affiliates to expand market reach
Research	• Advanced R&D centers with highly developed human capital
Development	• Growing portfolio of private label products • Growing diversity of online businesses • Growing diversification of businesses
Information Systems	• Advanced IT platform architectures systems
Transversal	• High global brand equity

Table 2 - Amazon's Capabilities

5.2. Core Competencies

A core competency is a competency that provides sustainable value. To identify Amazon's core competencies the VRIO framework was utilized. In this framework the following items were taken into consideration for each competency:

1. **V - Valuable**: if it provides customer value and competitive advantage
2. **R - Rareness**: if the competition does not possess it or possess it in a very inferior level
3. **I - Imitability**: if it can be easily imitated by competitors
4. **O - Organization**: if the firm is structurally organized to exploit this competency

Table 3 - Amazon's Core Competencies

	V	R	I	O	Core Competency	Competitive Advantage
Career plan and employee training	✓	-	-	✓	-	Parity
Accumulated expertise on e-commerce retail	✓	✓	-	✓	-	Temporary
Extensive skills in digital marketing	✓	✓	-	✓	-	Temporary
Wide range of options for ordering, returning and delivery	✓	✓	-	✓	-	Temporary
Multichannel digital experience	✓	-	-	✓	-	Parity
Proprietary delivery service (land and air)	✓	✓	✓	✓	✓	Sustainable
Strategic network of warehouses and distribution hubs distributed internationally	✓	✓	✓	✓	✓	Sustainable
International network of affiliates to expand market reach	✓	✓	✓	✓	✓	Sustainable
Advanced R&D centers with highly developed human capital	✓	✓	✓	✓	✓	Sustainable
Growing portfolio of private label products	✓	✓	✓	✓	✓	Sustainable
Growing diversity of online businesses	✓	✓	-	✓	-	Temporary
Growing diversification of businesses	✓	✓	✓	✓	✓	Sustainable
Advanced IT platform architectures systems	✓	-	-	✓	-	Parity
High global brand equity	✓	✓	✓	✓	✓	Sustainable

According to the matrix, seven main core competencies were identified:

1. Proprietary delivery service

Most online retailers do not possess their own delivery service. Amazon is expanding its business beyond the retail, creating its own delivery systems, an investment that creates differentiation and is difficult to replicate and only viable in large economies of scale.

Strategic network of warehouses and distribution hubs distributed internationally

Amazon invested a lot to have its own facilities. Again, being so big allowed the company to expand its operations in a much more efficient way that differentiates the company from its competitors.

International network of affiliates to expand market reach

Getting to such a dominant market position might not have been easy for Amazon. The fact is that now the very developed network of Amazon in multiple markets is a big leverage for the company, and a major source of sustainable value.

Advanced R&D centers with highly developed human capital

To sustain the technological innovation, Amazon invested on its own R&D centers and brought to the company a strong human capital. Amazon is not just an online retailer anymore. Being aware that innovation is a major disruptor for any company, Amazon invested in R&D focused on technology to develop and ideate new possible value propositions for the customer. The company has many patents that can create source of competitive advantage.

Growing portfolio of private label products

Amazon is also known for its own products (Kindle, Echo, etc.). Not many online retailers can claim the same. That is a major competitive advantage because it allows Amazon to bundle services that create more value for the customer.

Growing diversification of businesses

Amazon constantly pushes the boundaries of the company's scope. It keeps investing in new areas that ultimately will create a more diversified business and a more resilient company.

High global brand equity

Amazon keeps building its brand equity. The brand value, recognized by the customer, will allow Amazon to be more competitive in the future.

5.3. Strategic Fit

Based on the online retail's industry **Key Success Factors** and Amazon's core competencies described in the previous section, the following Strategic Fit was developed. It shows that for both the consumers and sellers' segments, Amazon achieves a strong Strategic Fit.

As previously identified, the following are the key success factors for the consumer.

ID	Key Success Factors
A	Competitive operating costs
B	Innovative web management and data mining
C	Efficient and integrated logistics management
D	Wide products and services range
E	Reliable payment and sellers' validation system

Based on this the following strategic matrix was defined.

Core Competencies	Key Success Factors A	B	C	D	E
Proprietary delivery service (land and air)	4.5	-	5	-	-
Strategic network of warehouses and distribution hubs distributed internationally	3.5	-	5	-	-
International network of affiliates to expand market reach	4	-	4.5	4.5	-
Advanced R&D centers with highly developed human capital	4.5	5	4.5	-	-
Growing portfolio of private label products	5	4.5	4.5	4.5	-
Growing diversification of businesses	4	5	4	5	-
High global brand equity	-	-	-	-	-
Strategic Fit (Average: 4.59)	4.25	4.8	4.6	4.7	

The Strategic Fit between Amazon's core competencies and the industry's key success factors is remarkably good. This is not surprising coming from a company that has been amongst the dominating players of the industry for many years. Over the years, and as will become apparent in the next sections of this report, the innovation strategy, diversification, internationalization and vertical integration's strategies of Amazon have all contributed to reinforcing its core competencies in the areas that increase its strategic fit with the industry's key success factors. While we do not consider that the payment and sellers' validation system are among Amazon's core competencies, the company is by no mean disadvantaged in this area compared to its competitors. The competitive operating cost key success factor has a lower score than other factors, most notably of the costly network that composes the logistics system of Amazon. On the other hand, this approach presents advantages to Amazon's consumers in terms of rapidity and reliability of delivery. This ends up being an excellent strategic fit as well.

6. Objectives and Strategy

6.1. Vision and Mission and Values

Amazon's mission and vision statements contribute to the company's status as one of the largest online retailers in the world.

6.1.1. Vision Statement

Amazon's vision statement reflects its intentions and aspirations for the future. Since its launch the statement has remained as follows: "To be Earth's most customer-centric company."[37]

This statement outlines key aspects about its aspirations:

- to be a customer-centric company, where **customers come first in all ideas** and decision processes.
- to have global presence, to have the largest influence on the market at the global level. The impact it seeks is emphasized by the word Earth's in its statement of intent. It explains why the firm includes the term 'be Earth's' as a reminder of the extent to which the company wants its impact to be felt.

These aspirations will dictate efforts and priorities for Amazon. The company's success as the second largest internet retailing company in the world results at least in part to its **unwavering commitment to this vision**.

6.1.2. Mission Statement

According to Annual Reports from different years and in line with its vision, Amazon seeks to "serve consumers through our retail websites and physical stores and focus on selection, price, and convenience."[38]

The statement defines the business sector: retailing, online and in physical stores. It does not include the nature of all the businesses and operations. This may be short in the sense that it does not give employees and investors the clearest idea of what the company is all about and how it has developed.

The statement outlines what customers can expect from Amazon based on three shopping factors:

- **Competitive prices**: Amazon's business model keeps operational costs at the minimum enabling it to achieve it successfully.
- **Varied selection**: Amazon's range of products and services is a key aspect that has contributed to the company's success and popularity as being a place where one can find virtually everything and with ease.
- **High convenience**: Customer online experience, delivery reliability and speed are priorities for Amazon.

[37] Amazon 2019 Annual Statement
[38] *Ibid.*

6.1.3. Values

Amazon’s initial articulation of its company’s core principles came in the format of a list of 5 key values: “customer obsession, frugality, bias for action, ownership, and high bar for talent”[39]. A sixth core value was added later – innovation. In 2002 these principles were revised to be understood and followed by all Amazonians. Setting the expectation for every employee to be a leader, the values we formalized as the Leadership Principles. As pillars of its organizational culture, the values that Amazon consider most important are “customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking.”[40]

The more detailed guiding principles that drive day-to-day ideas and decision-making are[41]:

Customer obsession	The customer is Amazon's top priority, everything else is of secondary importance. The focus is set on customer trust.
Ownership	Acting as company owners, Amazonias are encouraged to think long term and to have a generalized care for the company as whole, rather than team, departments, divisions ets.
Invent and Simplify	Innovation, invention and simplication are expected. It is undertood that this can lead to being misunderstood for long periods of time.
Are Right, A Lot	Amazonians have strong judment and good insticts, seeking growth through diverse perspectives.
Learn and Be Curious	Constant learning, improvement and curiosity are valued.
Hire and Develop the Best	Every hire and promotion is regarded as an opportunity for Amazon to grow through talent acquisition. Development is also considered key.
Insist on the Highest Standards	At Amazon its about raising the bar and driving the delivery of high quality products, services, and processes.
Think big	Amazonians are endouraged to create and communicate a bold direction that inspires results.
Bias for Action	Speed is a key aspect of the business. Mistakes are accepted while careful risk taking is valued.
Frugality	Doing more with less resources is encouraged and valued.
Earn trust	Listen, speack and treat respectfully and benchmark against the best.
Dive Deep	Amazonians are encouraged to be hand-on professionals who operate at all levels
Have backbone; Disagree and Commit	Challenge decision in case of disagreement. After the decision is made, commit to the compromise.
Deliver Results	Results orientation towards high quality in timely fashion.

Its vision and mission statement provide the direction toward Amazon’s desired future. Since it began in 1994, Amazon has demonstrated a clear focus about what it wants to be. Amazon’s mission statement focuses on effective and high-quality customer service while its vision statement portrays its desire for global dominance in the online retail industry. This is the glue that sticks the organization together towards a common purpose: its reason for existence. The motivation, cohesion and trust that can arise from unified corporation supports the attraction and retention of talent; the talent which will ultimately discover Amazon’s way into future.

[39] Harry McCracken, *These are Amazon’s 38 Rules for Success*
[40] Amazon 2019 Annual Statement
[41] Our Leadership Principles

6.2. Objectives

From humble beginnings to an online retail giant, Amazon looks towards world domination. Its objectives demonstrate of its ambition. From better service to drone delivery, the list is extensive. Amazon's main objectives for the future include the following: [42] [43] [44] [45]

	specific S	measurable M	attainable A	relevant R	timely T
Extend its leadership in e-commerce.	O	O	-	O	
Improve grocery shopping and delivery service options.			-	O	
Expand cashier-free stores - Amazon Go, "a store where you could walk in, pick up what you wanted, and leave"[1]	O		-	O	
Open larger Whole Foods stores, further capturing the grocery business segment opportunity, and to offer greater cross segment advantages in the Amazon Prime bundle.	O		-	O	
Open Amazon 4-Star to showcase special selection, promote the brand through physical presence and provide benefits for bundle customers	O		-	O	
Promote products through Alexa			-	O	
Amazon-branded bank accounts through a partnership with a financial company	O	O	-	O	
Expand the apparel segment through a subscription model, providing the convenience factor with large selection, fast delivery, and easy returns, accompanied with interactive shopping experience and Alexa	O		-	O	
Retain the 100 million paid Prime subscribers, who have increasingly more benefits such as free e-books, photo storage, ad-free music, discounts at Whole Foods, and Amazon Key, a service which enables delivery inside your home	O	O	-	O	O
Run on 100% renewable energy by 2030	O	O	-	O	O
Purchase 100,000 fully electric delivery vehicles from Rivian	O	O	-	O	
Invest $100 million in nature-based climate solutions and reforestation projects,	O	O	-	O	
Eliminate packaging waste	O		-	O	
Investe $10 million in the Closed Loop Fund	O	O	-	O	
Develop fleets of delivery drones	O		-	O	
Expand Amazon van delivery	O		-	O	

Amazon's objectives portray its primary **focus on the improvement of customer experience**, the expansion of its customer base, the investment in technology and information, as well as in strengthening its brand through physical stores and competitive position in the global e-commerce market. Of great importance, is the Prime membership program. All initiatives provide opportunity of growth for the Amazon Prime community, which is the all-embracing ambition of the company.

[42] Amazon 2019 Annual Statement
[43] Sandra Gudat, *Amazon Business Strategy: Goals, Objectives & Retail Marketing Takeaways*
[44] *Amazon Sustainability: Thinking Big*
[45] *Amazon's Future Plans , from Cashless Stores to Home Robots*

Figure 21 – Amazon Prime Air

Analyzing these objectives in the SMART framework, one can understand that although specific, relevant and sometimes timely, its measurability and attainability are not evident. Considering the limitations of the information available to outsiders, the report does not evaluate further the quality of the objective sets forth in this respect.

6.3. Value Creation

6.3.1. Value creation for customers

Value creation for customers is the central focus for Amazon as it seeks to be Earth's most customer-centric company". Customers can be categorized into two groups:

Customer sets

Primary	**Secondary**
consumers, sellers, developers, enterprises, and content creators	sellers, vendors, publishers, and authors, through programs such as sponsored ads, display, and video advertising

Considering the scope of this report, the focus is set on the consumers in the primary customer set. The value Amazon creates for consumers are as follows:

Selection: The website is designed to accomodate for hundreds of millions of unique products across dozens of product categories to be sold by Amazon and by third parties

Price: Amazon seeks to offer its customers low prices

Convenience: Product are available through its website, mobile apps, Alexa, devices, streaming, and physical stores. Additionally the company provides fast and free delivery, easy-to-use functionality, and timely customer service. Customer service centers exist globally, supplemented by co-sourced arrangements

The value that Amazon creates for its customers can be demonstrated by its steep sales growth, as seen in the graph below:

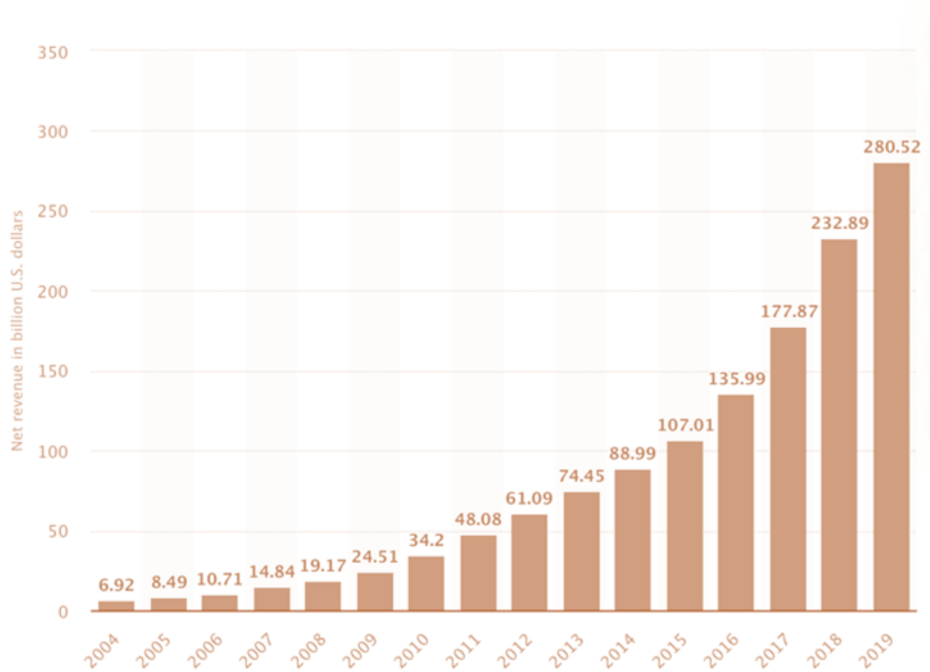


Figure 22 – Annual net revenue of Amazon from 2004 to 2019[46]

[46] J Clement, *Amazon Seller Main Category 2019*

Complementarily, value creation for customers can also be exemplified by its strong market share, as already evaluated in chapter 2.3.

6.3.2. Value creation for shareholders

Value creation for shareholders is a key measure of success for Amazon. The emphasis on the customer and the long term has guided the fundamental management and decision-making approach. It seeks to create value for shareholders that have a fit with this investment philosophy:

- Focus on value creation for customer is a way that benefits customers and therefore, inherently, investors. The long-term interests of its shareholders are tightly linked to the interests of its customers. More cash flow will result in more long-term value for our shareholders
- Focus on bold investment decisions, prioritizing long-term considerations over short-term profitability. Amazon invents more everyday to extend its leadership in e-commerce. While some reinforce our competitive position, others contribute to valuable lessons learned
- Focus on cash, prioritizing the maximization of the present value of future cash flows over financial performance measured byperiodic accounting statements. From the cost perspective, it reinforces a lean and cost-conscious culture
- Focus on hiring and retaining talent. To have a motivated employee base that thinks and acts like an owner, Amazon weights compensation to significant stock ownership rather than

Several economic, financial and market indicators can be used to assess the value it has created for its shareholders. The economic and financial outlook of the company is positive. In an industry that continues to grow despite the falling growth rate percentage, Amazon demonstrates a strong performance with a world market share of 14%, granting it the number two position in online retail[47].

Amazon has been extremely successful in creating long-term value for shareholders with tremendous growth in shareholder returns, through capital gain and dividends. The run for Amazon shares has been phenomenal over the years. The stock price evolution reflects the company's increasing value, based on a variety of factors in the global landscape as well as the company itself. Since its stock market initiation in 1997, $100 invested would have turned into six figures. Also, the company has consistently outperformed the S&P 500. On September 2018, "Amazon's stock price rises enough to make the company briefly worth $1 trillion. It's the second company to pass that threshold, after Apple reached it earlier in the year, and analysts quickly started to predict $2 trillion won't be too far off in the future"[48].

[47] Passport: *Amazon.com Inc in Retailing*
[48] Lydia DePillis & Ivory Sherman, *Amazon's Extraordinary 25-Year Evolution*

Figure 23 – Amazon's stock price evolution, 1997-2020

The financial statement demonstrate that the operating profit margin improvement from 2% to 4% demonstrates that the growth in costs has not outgrown the growth in revenue. Additionally, the improvement in the gross margin from 22% to 26% also demonstrates that the company has not grown at the expense of a loss in profitability. This has positively impacted earnings per share.

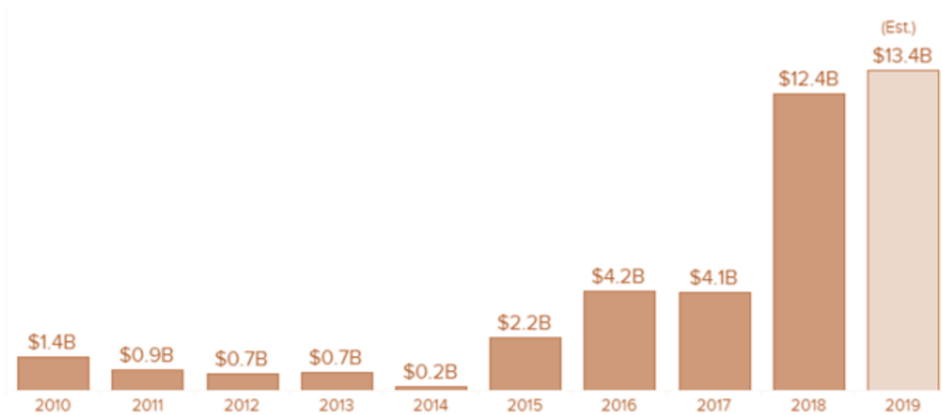


Figure 24 – Amazon's operating income

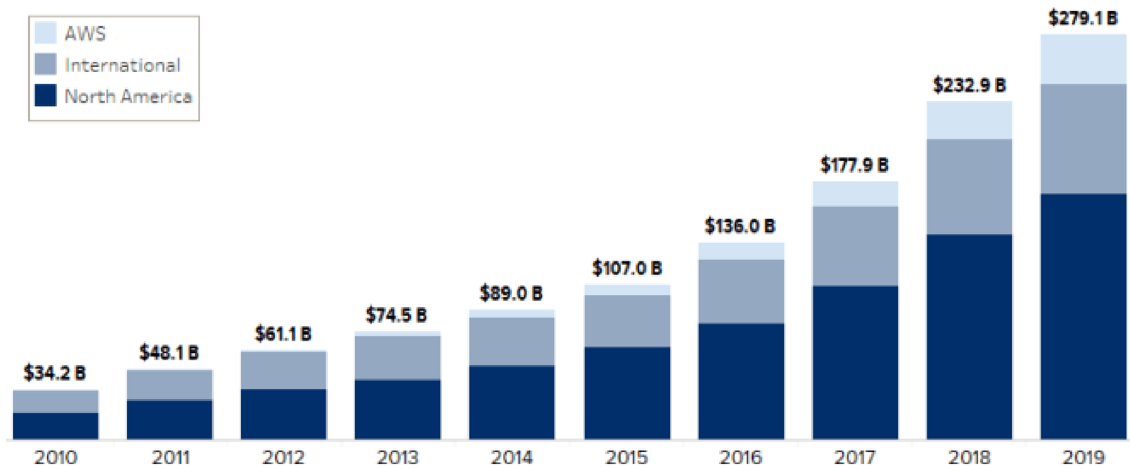
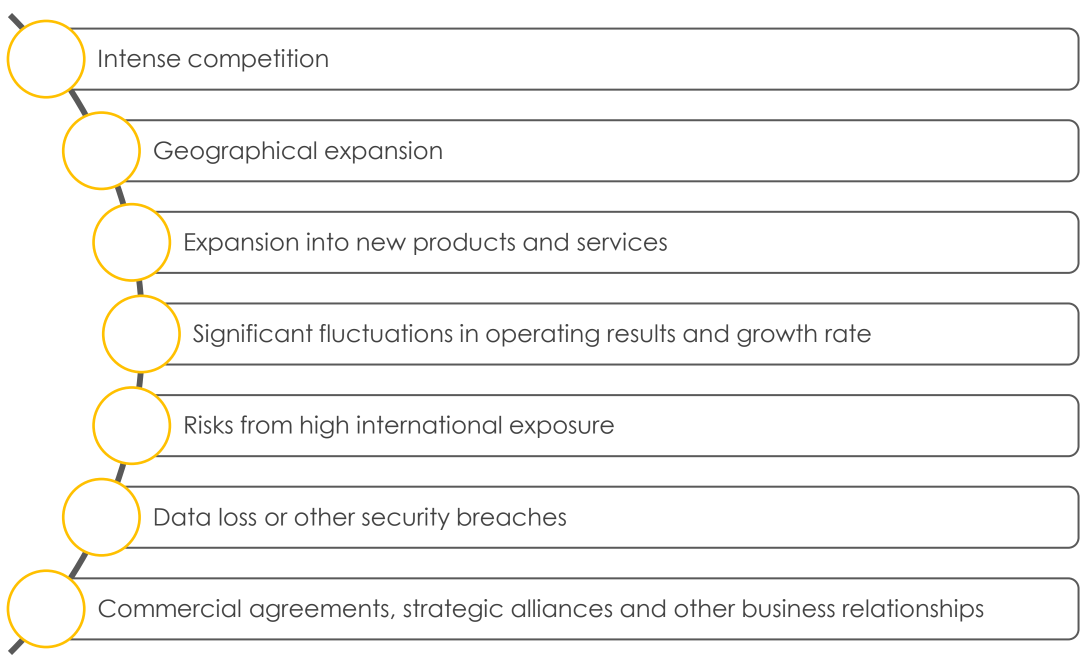


Figure 25 – Amazon's revenue growth[49]

Significant investments have been made in long-term assets, which have grown in absolute terms and as a percentage of total assets, demonstrating the company's level of investments. In terms of investment in new and existing product categories and service offerings, the focus is set in technology. The ultimate objective is to **enhance the customer experience and improve process efficiencies.**[50]

There are several significant factors, events, and uncertainties that may pose risks to Amazon's economic sustainability. These factors could impact the "business, growth, reputation, prospects, financial condition, operating results … cash flows, liquidity, and stock price."[51] The main risk factors to Amazon's operations can be summarized are as follows:



[49] Matt Rosoff, Amazon will be the most important company of the 2020s
[50] *Amazon 2019 Annual Statement*
[51] *Ibid.*

The risks highlighted above result from its size, impact and international exposure. Although its financial performance is not as stable as its drive for growth, Amazon creates value for its shareholders today. Despite its promising future plans and projections, past returns may not be indicative of future results due to its colossal size and value.

6.3.3. Value creation for employees

"Over the last decade, no company has created more jobs than Amazon."[52]

Amazon has over 800,000 employees worldwide. In 2019, they paid over $30 billion in compensation to employees in the U.S. Its value creation of employees derives from its ability to create jobs with benefits for all employees.

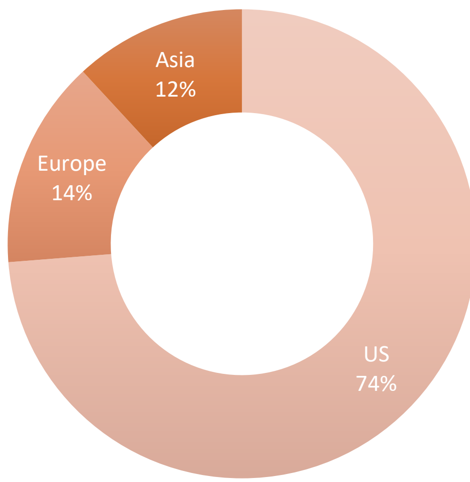


Figure 26 – Division of Amazonians per geographical region

It strives to improve representation. The following image represents is current workforce diversity:

[52] 2020 Proxy Statement in Amazon 2019 Annual Statement

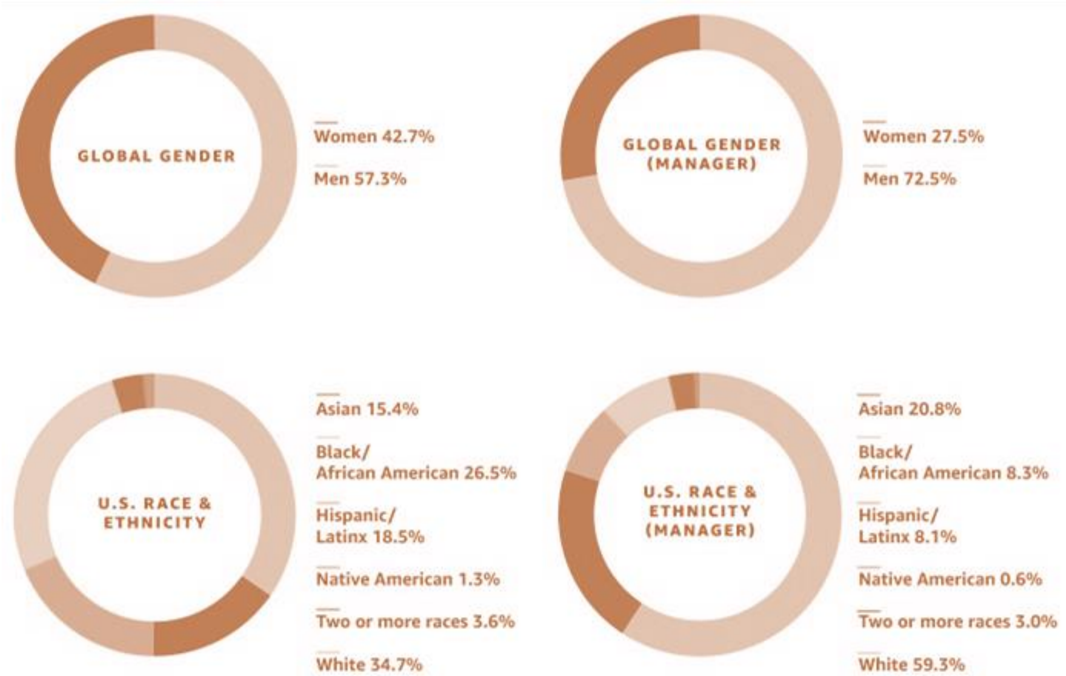


Figure 27 – Diversity at Amazon[53]

Amazon has recently been named No.1 on LinkedIn's 2018 Top Companies list, No. 1 on the Harris Poll's Corporate Reputation survey, and No. 2 in Fortune's World's Most Admired Companies list[54]. It has also been received the following awards in recognitions of its quality as an employer:

#1 Drucker Institute Best-Managed Company

#3 LinkedIn Top Companies U.S. Edition

#3 YouGov BrandIndex Workforce Rankings

Fast Company Best Workplace for Innovators

Forbes Best-In-State Employer in 20 States

US Military Times and VETS Indexes Best for Vets

UK Ministry of Defence Employer Recognition Scheme Gold Award

Perfect Score on Human Rights Campaign Equality Index

Disability Equality Index Best Places to Work for Disability Inclusion

[53] *About Amazon*, amazon.com

[54] *About Amazon*, amazon.com

The value Amazon creates for its employees can be shown by the following:

- **Pay:** Minimum wage of $15 [US minimum wage: $7,5] and £9.50 in the U.S.and U.K. respectively for all full-time, part-time, temporary, and seasonal employees.
- **Benefits:** Industry-leading benefits include health insurance, innovative parental leave, and a program named Career Choice to support improvement of educational level.
- **Training:** The program Upskilling 2025 is a $700 million investment to train over 100,000 employees by 2025 to help them move into more highly skilled roles.
- **Health and Mental Health:** Amazon provides medical plan options for employees and their families as well as a 24/7 medical assistance line. It has disposed of 24-hour a day free and confidential counseling services reagrding physical and metnal concerns.
- **Financial stability:** Amazon workers have the opportunity to hold stock. The company also offers a 401K plan with 50% company match.

Figure 28 – Amazon fulfillment center employee

Although the figures presented above are positive, the company has been condemned for unsafe and grueling working conditions. Workers claim that while the Amazon's customers and shareholders are happy, the workers are not. Besides pay and work conditions, attention has also been drawn to high injury rates, which "were found to be three times the national average for warehouses, based on the company's injury reports to the Occupational Safety and Health Administration (OSHA)"[55].

[55] Michael Sainato, *I'm not a Robot*

As mentioned under Social Sustainability, the development of logistic performance and technology, low transportation costs, the focus on high customer satisfaction at minimum cost has put pressure on an exhausted workforce. Although large scale job creation can be credited to Amazon as well as pay and benefits above the minimum level and training, the value it creates for its employees can be debated. The controversy exists as opinions diverge in this respect, between workers, trade unions and the management group.

6.3.4. Value creation for communities

Amazon is committed to "helping more children and young adults, especially those from underrepresented and underserved communities, have the resources and skills they need to build their best future."

Some of the initiatives include:

Figure 29 – Amazon's initiatives for communities

7. Business Strategy: Products-Markets

To study Amazon, it is important to know what the company sells. To take a deep dive into the topic, this section of the report focuses on Amazon's products-markets strategy from its inception, back in 1994.

The products-markets of Amazon will be examined, evaluating the company's products offer and their attractiveness between consumer segments. Further, how the products-markets strategy has evolved regarding its products and market presence will also be analysed, through the Ansoff model.

7.1. Products-Markets Matrix

The first step of the products-markets matrix definition is to define the segmentation criteria. The main audience of Amazon consists of upper- and middle-class social groups who have an inclination towards using e-commerce portals and are comfortable with online shopping.

As mentioned in the microenvironment chapter related to consumers, Amazon uses demographic, psychographic, behavioral, among other parameters to segment its customers.

Being such a high-tech company, Amazon developed the traditional customer segmentation into a micro-level segmentation based on each customer specific profile (gathered trough data) for a personalized targeting.

For the segments of the matrix, the five consumer segments defined under the microanalysis were considered:

1. Constrained Strugglers
2. Consciously Engaged
3. Worried Indecisive
4. Traditional Value Seekers
5. Leading Edgers

Although it may have been a better approach, generational segments were used instead:

1. Generation Z
2. Millennials
3. Generation X
4. Baby Boomers

The reasoning behind this is that it a simpler way of analyzing the matrix, and there would be more supportive data on the purchase power of the segments, as well as their online presence.

The products-markets matrix establishes the correlation between these segments and two groups: **Amazon product categories** and **Amazon online retail related services**.

The market attractiveness was defined based on qualitative and quantitative information gathered during our research (sales volume by category, sales volume by generational gap, etc.). The sales volume on Amazon by category was provided through the following data:

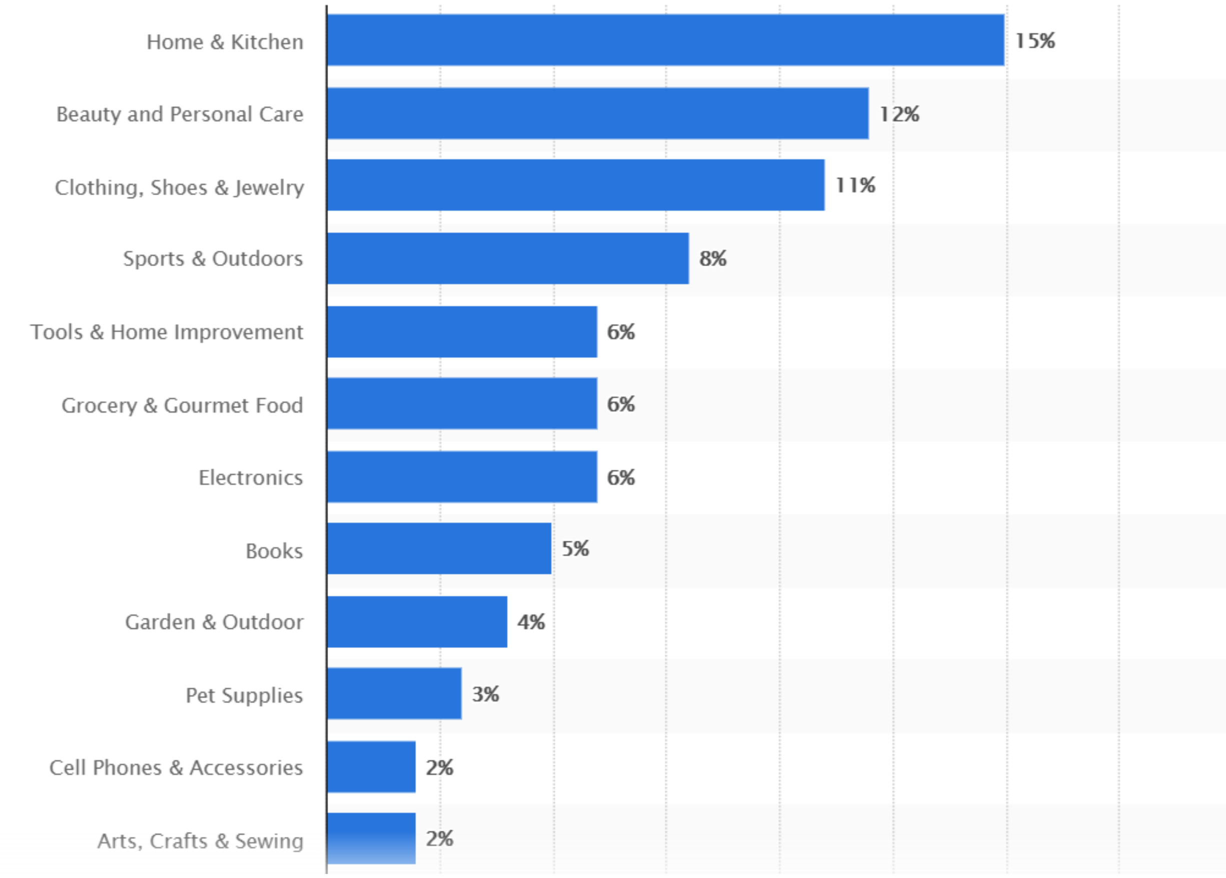


Figure 30 - Main product categories of Amazon marketplace sellers as of April 2019

More significance means a higher market attractiveness, but who buys the category is also important, and at some cases assumptions were made for this analysis.

Little supportive data was found for the usage of most of Amazon online retail related services but according to the profile of each segment and general research some assumptions were made.

The presence of the product/service was also defined based on research. In this evaluation the method was also more qualitative. Nevertheless, actual research on product availability on the website (amazon.com) was performed for a better scoring method.

For instance, presence in home and tools improvement was scored with a low presence because other retailers offer a much wider selection of products. Clothing, shoes, and jewelry has more presence in both the millennial and generation X segments because there is a bigger offer for these two segments; Amazon Prime Now has a bigger presence in the millennial segment because there are actually more millennials using the service, etc.

	Product/Service	Generation Z	Millennials	Generation X	Baby Boomers
Product Category Offer	Home & Kitchen	•	•••	•••	•••
	Beauty & Personal Care	••	•••	•••	•
	Clothing, Shoes & Jewelry	••	•••	•••	••
	Sports & Outdoors	••	••	••	••
	Tools & Home Improvement	•	•	•	•
	Grocery & Gourmet Food	•••	•••	•••	•••
	Electronics	••	••	••	•
	Books	•••	•••	•••	•••
	Garden & Outdoor	••	••	••	••
	Pet Supplies	••	••	••	••
	Cell Phone & Accessories	••	••	••	••
	Arts, Crafting & Sewing	••	••	••	••
	Automobile Parts & Accessories	•	•	•	•
	Movies & TV	•••	•••	•••	••
	Baby		•	•	
	Others	•	•	•	•
Amazon Services	Amazon Prime Delivery		•••	••	••
	Amazon Prime Now		•••	••	•
	Amazon Prime Book Box		•	•	
	Amazon Prime Pantry		•	•	•
	Amazon Prime Wardrobe		•	•	
	Amazon Locker	•••	•••	•••	•
	Amazon Fresh		•	•	•
	Amazon Home Services		•	•	•
	Amazon Garage		•	•	•
	Amazon Handmade	•	•	•	•
	Subscription Box		•	•	•
	Amazon Warehouse Deals	•	•	•	•

Attractiveness

High	Medium	Low	Zero

Presence

Strong	Medium	Small
•••	••	•

The services mapped in the matrix are described in the list below. This report is only focused on the online retail business of Amazon. Although the ecosystems of retail/entertainment is mixed in Amazon's business model, we tried to identify and separate the services Amazon makes available to the customer to **enhance the online retail experience**.

Amazon Prime is a service where members receive benefits which include free fast shipping for eligible purchases, streaming of movies, TV shows and music, exclusive shopping deals and selection, unlimited reading, and more. For this report, only Amazon Prime offers related to the online retail experience were examined.

- **Amazon Prime Delivery** — fast free shipping (the full Prime service includes exclusive access to movies and TV shows, ad-free music, unlimited photo storage, and Kindle books).
- **Amazon Prime Now** — offer of household items and essentials with free 2-hour delivery.
- **Amazon Prime Book Box** — a subscription that delivers hand-picked children's books every 1, 2, or 3 months.
- **Amazon Prime Pantry –** a service allowing the order of up to 45 pounds of dry goods and non-perishable groceries for a flat delivery fee.
- **Amazon Prime Wardrobe** – program to buy clothing, shoes, and accessories with seven days to try on the items at home, being only be charged for the items people decide to keep.
- Outside of Amazon Prime there are many more services Amazon has built to enhance the customer experience.
- **Amazon Pay** — simplified check-in and checkout using information already stored in the Amazon account.
- **Amazon Locker** — secure, self-service kiosks where customers can pick up packages at a time and place that is convenient for them.
- **Amazon Fresh –** a home grocery delivery service first trialed in 2007, and later made available in Boston, Seattle, Los Angeles, San Francisco, California, San Diego, Brooklyn, New York and Philadelphia.
- **Amazon Home Services –** offering homeowners a marketplace for professional services such as plumbing, electrical, audio/visual installation, and lawn services.
- **Amazon Garage –** car model mapping to facilitate finding accessories that will work with each personal vehicle.
- **Amazon Handmade –** a service to help people find products handcrafted by artisans.
- **Subscription Box** – discounted subscription to certain items people repeat the purchase regularly (toothpaste, toilet paper, or dog food).
- **Amazon Warehouse Deals** — Deep discounts on used products from Amazon.
- **Alexa** – the voice assistant of amazon that has already made available the possibility of online ordering.

One major insight of the matrix is that Amazon is providing an increasing amount of services to the customer. The presence in these services is still low in most cases, because the offers are new to the customers and can be further developed in the future to enhance the retail experience.

7.2. Ansoff Matrix

As per Amazon's own admission, the company seeks to be "the [world's] most customer-centric"[56] organization. As explored in the Products Market Strategy above, what becomes clear is just how much emphasis Amazon has placed on enhancing the overall e-commerce experience for both their existing consumers, and potential new markets.

Despite its remarkable development in certain geographies – in particular the Western hemisphere – its market share in other geographies can still increase to achieve similar results. Additionally, as the customer evolves and technology evolves, Amazon must continue to innovate, as it has done, in order to guard against complacency and defend its position in an increasingly digital world.

Using some of the insights provided in the Product Market Strategy, one can identify the dynamics involved in their seemingly exponential growth as an online retailer using the Ansoff Matrix. It should not be noted that beyond the scope of the e-commerce business, Amazon's diversification speaks volumes to its ability to capture new markets and new clients. For the purposes of this case study, however, only those business segments that directly leverage or impact its e-commerce segment have been considered.

[56] Amazon 2019 Annual Statement

1. Market Penetration

Within five years of its inception, Amazon grew from an internet bookstore into an e-commerce giant by widening the range of products available and expanding their business portfolio. Today, Amazon is almost synonymous with e-commerce in many parts of the world. It has permeated the buying experience of customers across all stages of the process, from ideation to purchase, and has become a staple reference in general culture. The company has done this by focusing on the customer and understanding their needs and expectations beyond its initial book offerings.

In the early years of Amazon's business, the company patented some of the very technologies that still exist to this day, and would enable the continued growth of their company, such as the one-click technology, launched in 1997. The '1-Click' option enabled customers to purchase an item with just one click, and this was such an attractive feature that many other retailers licensed the technology until the patent expired in 2017. The trademark is still held by Amazon.

As touched upon under the Key Success Factors section, further site features that allow the company to maintain a high level of consumer engagement include review systems, and a personalized 'shop-front' landing page on the website, based on individual profiles. This penetration and the digital native nature of Amazon has led to the company being a trailblazer in the trend of hyper-personalization – a concept that relies on using real time and historic data at an individual user's level, matching them to the best offers available. Additionally, the success of hyper-personalization is directly related to the amount of information a company has about their clients. The more data a company has, the more patterns they can identify. In Amazon's case, there is a wealth of data available, enabling them to provide the best possible service, and increase sales sustainability.

2. Product development

As a result of the above market penetration, Amazon's customer base is as wide-ranging as their goods on offer. Consequently, the company places a great deal of emphasis on enhancing the e-commerce shopping experience of this heterogeneous set of customers, with equally wide-ranging expectations and preferences.

Given the myriad of products available in their marketplace, one could argue that it would be difficult for Amazon to develop their product by increasing their product range. In many instances, the company have therefore opted to focus on capturing a larger share of a customer's expenditure by focusing on their needs, and creating an experience that makes Amazon the preferential destination in an ever-increasing number of online purchase journeys.

The company has been able to broaden their reach of a customer's expenditure by launching services or products that complement or leverage its e-commerce business. As part of the company's larger framework structured around the consumer, the introduction of new services can be considered as part of Amazon's flywheel, as explored under **Strategy.** Further to the aforementioned strategy, one can recognize that optimizations made to the business to enrichen customer experience have a knock-on effect, and drive more traffic, and more selection. The increase in scale that results from this self-reinforcing strategy, increases scale and gains from scale, reducing the cost structure and enabling lower prices, which positively influences attractiveness to users. Once again, the flywheel demonstrates the central role customer experience plays in contributing to Amazon's overall strategy. As per Bezos himself, "It's not enough to only listen to your customers, but you also have to invent on their behalf."[57]

A look back on Amazon's timeline from the mid 2000s offers an insight into this strategy of investing in customer-centric product development to increase client base. In 2005, for instance, Amazon launched **Prime**. As outlined under the Products Market Strategy, the service is positioned as a loyalty program, where members receive perks such as free or faster shipping, or exclusive access to deals through the likes of **Prime Day**, Amazon's take on Cyber Monday or Black Friday, through a yearly subscription model. As of 2019, Prime has more than "100 million paying members, making it among the world's largest paid membership programs."[58] These numbers speak to the success Amazon has had in understanding their customers, along with their ability to leverage data to create an extremely successful loyalty program that remains a central part of the platform to this day.

In 2007, Amazon expanded into hardware by unveiling the **Kindle**. The Kindle was an innovative way for Amazon to cater to its existing customers by offering them a simpler way to experience the same products: books. The Kindle allowed Amazon to reduce the time between purchase and availability, and enabled customers to store a library in a pocket-sized device – both valuable features for their avid reading customers.

Amazon has also developed their product through more traditional approaches. In particular, Amazon initiated key brand extensions through the aforementioned examples, but also launched their own brands in their marketplace.

[57] *The Everything Store*
[58] Bloomberg

AmazonBasics, for instance, was launched as Amazon's own private label brand in 2009 and offers thousands of everyday items – from technology accessories, to kitchen items, as a direct competition to products sold by other sellers. By using purchasing trends form their existing customer base, they are able to identify both demand for products, and possible gaps in the market, and introduce new goods accordingly. Other own brand items include clothing and apparel – **Amazon Essentials**, Goodthreads, Mae and 206 Collective – and domestic products through **Amazon Elements**.

Another example of this, is **Amazon Prime Wardrobe**, which as outlined, allows customers to try clothes before committing to a purchase, reiterating the idea of Amazon in the home, and placing the customer's convenience a the core of service innovation. This approach is also illustrated in the **Amazon Locker**, allowing customers to purchase items as needed without needing to consider the logistics of deliveries – they simply need to select a convenient place and time of their choosing, and access the locker once their purchase has arrived.

What many of the above innovations and complementary services illustrate is Amazon's ability to become firmly embedded in the everyday of the consumer – beyond the online retail experience.

3. Market Development

As an e-commerce site, the replicability of the business across international territories becomes a very attractive growth opportunity, by offering the same services and demonstrating the same customer centricity in new geographies. Amazon did precisely this by launching international websites. Currently, Amazon is able to sell to most territories through one of their 17 dedicated international storefronts. By extending its geographical reach through these localized websites, Amazon was able to expand into emerging markets.

Amazon's first key foray into emerging markets was kick-started in 2004, when they acquired Joyo – China's then largest online marketplace – for $75 million, hoping to tap into the growing economic climate there. Joyo was later re-branded as Amazon China in 2011. In recent years, however, Amazon's hopes for dominance in the Chinese market have been squashed by Alibaba Group Holding Ltd. and JD.com Inc, as outlined under Competitors previously. Some say that Amazon failed to adapt its very globalized view to the local market and local consumers.

As a result, Amazon re-focused their growth on other increasing emerging markets, such as India and Brazil. In both instances, Amazon adapted their growth strategies, learning from their failure to gain traction in the Chinese market. In fact, it was Amazon's customer-centricity that finally allowed them to reflect the new markets more accurately they were trying to enter. Amazon's expansion into India is a clear example of this.

India represented an enormous opportunity for Amazon, as a "largely untapped e-commerce market"[59] with over 175 million potential customers in 2020 alone. However, 67% of the population lives in rural areas, and while many Millennials now own mobile phones, only about 35% of the country is connected to the internet. The greatest challenge, for Amazon, however, is that India still thrives as a cash economy, meaning most transactions go through cash, rather than debit or credit cards. Amazon's strategy – instead of imposing its existing model as it had tried to do in China – was to adapt its modus operandi to the local customer: rural, with reduced network coverage, and cash spending habits. Amazon worked with small rural shop owners to introduce a shopping experience that would allow customers to place an order through the website but facilitated by the shop owners. These shop owners would then "alert customers when their products [were] delivered to the store, collect the cash payment, and pass along the money — minus a handling fee — to Amazon."[60] To combat the reduced

[59] Vijay Govindarajan and Anita Warren, "*How Amazon Adapted Its Business Model to India"*
[60] *Ibid.*

network coverage, Amazon also introduced a more streamlined version of its app for those consumers that could purchase online goods.

Though Amazon adopted a different tactic when expanding in India, it acquired souq.com to extend its reach in the Middle East in an approach that resembled its entrance into the Chinese market. In 2017, it purchased the Middle Eastern online retailer for $580 million. Two years later, it announced it would be re-branding the site to fall under the formal Amazon umbrella, as amazon.ae. While this strategy did not work in China, and while the re-branding is in early stages in the Middle East, Amazon have elected to keep souq.com available as a separate domain in certain territories. This suggests that there have been learnings from the failed China expansion, though it remains to be seen how effective these were.

As an e-commerce site, however, Amazon's market expansion is not just limited to physical borders. With internet access becoming more widely available across the world, Amazon's investments in digital infrastructures (which impact other areas of its business as well) have allowed them to also take notice of the growing markets in rural areas, as demonstrated both in India's expansion as outlined above, but also in existing markets, such as rural North America, or faraway villages in the UK.

4. Range Diversification

Amazon's high acquisition rate over the past ten years is also part of their growth strategy, either buying out fully existing businesses to bolster operations, or investing in patents to incorporate into their own business. In 2009, for instance, Amazon acquired the online shoe retailer **Zappos** for close to $900 million. This allowed them to penetrate the shoe market, an area they did not yet have a strong footing in and contributed to an ever-increasing range of products.

This same strategic approach applies to **Book Depository**, a UK-based online book seller with a large catalogue, offering free shipping to over 160 countries. The store was acquired by Amazon in 2011. **Diapers.com** was another acquisition made by Amazon in 2010 for $545 million, to enter the online specialty retailer for baby products.

Amazon purchased **PillPack**, an online pharmacy, for over $700 million. Less than eighteen months after the acquisition, Pill Pack was re-branded to fall under the newly formed Amazon Pharmacy: "PillPack by Amazon Pharmacy". By creating an entirely new subsidiary, Amazon was able to reach an entirely new market in their online retail universe. According to the American Health Association, the attraction of these potential new segments becomes apparent in the revenue, with the average PillPack user generating "$5,000 in revenue, which is far more than the average Amazon Prime member, who spends about $1,300 a year."[61]

Amazon also acquired **Souq.com**, the biggest ecommerce platform in the Arabic world, in 2017 for $580 million. This range diversification applies the same principles of Zappos, Pill Pack, Book Depository or Diapers.com except it was not a specialty player in on specific product category, rather a player with broad categories but with access to a specific market.

A different approach from the previous was taken in 2017, when Amazon bought **Whole Foods** for $13.7 billion, to expand their foray into the grocery sector, this time the company wanted to expand through brick-and-mortar locations. As a strategy, this also demonstrated Amazon's intention to become a 'click-and-mortar' company. The strategy at play here not only increases Amazon's market share in commerce generally, but also introduces entirely

[61] American Hospital Association, *Why Did Amazon Really Acquire PillPack?*

new customers to Amazon's capabilities, as Whole Foods' consumer base is often described as more affluent, health- and purchase-conscious.

Tellingly, in Amazon's annual statement, most acquisitions are detailed or justified as means to "acquire technologies and know-how to enable Amazon to serve customers more effectively"[62] once more reinforcing the underlying driver: customer centricity.

7.3. Products-Markets Evolution

By combining both matrices found in the Products Market Strategy and the Ansoff Matrix, one can clearly identify the phases involved in developing Amazon's extensive product reach. From their initial offerings as an online bookstore, to broadening their selection to include an assortment of other everyday items, Amazon introduced new services to complement their products.

Amazon's original concept was to be the internet's largest marketplace, which rang true until 2005. In 2005, with the launch of Prime memberships and associated benefits, Amazon slowly began moving from actual products, to complementary services. Beyond this, however, Prime is indicative of Amazon's long-term strategy: to create long-standing customer loyalty, not just through low-cost items, but through convenience. As detailed by Robischon, "[what] Amazon Prime is selling most of all is time."[63] According to an internal source, Prime customers on average doubled their spending on the site, too[64]. While the service and costs associated with it may not make it the most attractive service possible to the company, its value in generating return customers and increased customer spending still outweigh these tenfold.

By pairing other products with services, Amazon created new synergies to extend the types of products on offer. Examples worth noting in this context on the next page include books and the Amazon Kindle, groceries and Amazon Fresh, clothing and Amazon Wardrobe later.

[62] Amazon 2019 Annual Statement
[63] Noah Robischon, *Why Amazon Is The World's Most Innovative Company Of 2017*
[64] *The Everything Store*

Product / Service	Generation Z	Millennials	Generation X	Baby Boomers
Phase I: The World's Largest Bookstore (1995-1998)				
Books	•••	•••	•••	•••
Phase II: From A to Z: The World's Largest Marketplace (1999-2005)				
Movies & TV	•••	•••	•••	••
Electronics	••	••	••	•
Clothing, Shoes & Jewelry	••	•••	•••	••
Home & Kitchen	•	•••	•••	•••
Garden & Outdoor	••	••	••	••
Tools & Home Improvement	•	•	•	•
Beauty & Personal Care	••	•••	•••	•
Baby		•	•	
Sports & Outdoors	••	••	••	••
Cell Phone & Accessories	••	••	••	••
Arts, Crafting & Sewing	••	••	••	••
Automobile Parts & Accessories	•	•	•	•
Others	•	•	•	•
Amazon Prime Delivery		•••	••	••
Grocery & Gourmet Food	•••	•••	•••	•••
Phase III: A New Kind of Bookstore: The Age of Kindle (2006-2010)				
Amazon Fresh		•	•	•
Amazon Kindle	•••	••	••	•
Pet Supplies	••	••	••	••
Phase IV: From digital to physical: infiltrating the everyday (2011-2015)				
Amazon Locker	•••	•••	•••	•
Amazon Prime Now		•••	••	•
Amazon Alexa	•	•	•	•
Amazon Warehouse Deals	•	•	•	•
Phase V: Maximizing the consumer stronghold (2015-)				
Amazon Home Services		•	•	•
Amazon Handmade	•	•	•	•
Amazon Prime Pantry		•	•	•
Amazon Prime Book Box		•	•	
Amazon Prime Wardrobe		•	•	
Amazon Subscription Box		•	•	•

What this combination matrix also demonstrates is that the attractiveness of the segments of the products is on average lower than the actual services they provide – and this is crucial to Amazon's success. Tellingly, these services are also geared towards digitally literate generations with spending power. Since 2005, Amazon has managed to launch a new service almost annually to improve on the overall customer experience and consequently encourage more product purchases. Many online retailers can offer a model like Amazon's business model, but none have been able to replicate the rapid and consistent customer innovation.

7.4. Generic Strategies

Ordinarily, companies tend to focus on one of two generic strategies: differentiation, or low-cost. Building on what has been explored thus far, it becomes apparent that Amazon's strategy is neither ordinary, nor is it just low-cost or based on differentiation – it is a combination of both: an adapted strategy. Amazon's hybrid approach gives them a competitive edge that drives customers to their website instead of their competitors'.

Amazon can reach nearly all segments through its cost leadership, by offering low prices to consumers and driving an economies-of-scale framework to reduce operational costs. This economies-of-scale has also allowed them to define a strict control on costs, undercutting competitors. The company's persistent focus on providing customers with the lowest costs possible has resulted in it reinvesting its profits annually to maximize efficiency in its infrastructure, having spent an estimated $15 billion in its distribution centers, automation and software since 2010[65]. These large investments speak to Amazon's long-term oriented view: it is willing to lose money where needed to maximize profits in the future.

Cost Leadership

		Low	High
Differentiation	**High**	-	Amazon Prime Amazon Alexa Amazon Kindle Amazon Lockers Amazon Pay Amazon own-brand products
	Low	-	Amazon Fresh Marketplace products

By having a large concentration of their sales online, the company has a further cost advantage when compared to other retailers. The online retail model allows them to have a wider product selection, giving consumers a larger choice than they would have in traditional retail. This also benefits the customer when considering the cost of information – by having such a plethora of choices, the cost of information is diminished.

Amazon's roots lie within differentiation: the very model under which it operated eventually disrupted an entire business, and how consumers shop. While its initial offerings as an online marketplace may no longer hold the same level of differentiation as it did in the early 2000s with more competitors filling the landscape, its newer services and initiatives geared towards customer experience, remain very high in both the cost leadership and differentiation strategies. Amazon Prime, for instance, is still the leading membership of its kind, offering cheap, reliable, and crucially, expedited delivery options. Amazon's ability to innovate for and on behalf of customers to create an optimal purchasing experience makes it the most attractive destination for many online shoppers. These

[65] Zentail, *Learn from the Bezos Virtuous Cycle: Leverage and Invest in Infrastructure*

initiatives work holistically, but Amazon's differentiation can also be found in the more general user experience, as detailed in the hyper-personalization outlined under the **Ansoff Matrix**. Through their large customer base, they can predict purchases and offer a more tailored shopping experience on a level their competitors cannot. In fact, their own-brand offerings are based on exactly this – they are able to identify key trends in demand for certain products, and are able to develop their own versions at lower costs, all for the benefit of the customer.

Beyond this, their differentiation is also geared towards the supply end of the value chain, by having and investing in their own strategic network of warehouses and delivery services. This attracts sellers who are able to take advantage of Amazon's extensive logistics network, which in turn attracts more customers.

What Amazon's generic strategy demonstrates is an embodiment of the flywheel that is at the heart of the company's function – the virtuous cycle reinforces both the differentiation and the cost advantage through economies-of-scale.

7.5. Innovation Strategy

Amazon has leveraged its technological investments and innovations as a source of competitive advantage to bolster its customer-centric approach in its generic strategies. Innovation is part of Amazon's day-to-day, and is integral to the 'Day One' ethos Bezos has described to shareholders on multiple occasions.

The 'Day One' approach is to treat each day as if it is the first day in business – a new company seeking to find its footing in the industry. This start-up like mentality lends itself to the core of Amazon's business, which is innovation. In Bezos' view, without innovation (Day Two) there is "stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And that is why it is always Day One at Amazon."[66]

Conditions of the e-commerce market favor Amazon as an innovation larder, as the size of the market is so large it requires a large customer base to cover innovation costs. Amazon, as one of highest capped companies in the market today, is able to spend significantly on innovation. As mentioned, this amount has reached upwards of $20 billion annually.

Amazon currently have over 10,000 patents, allowing them to protect their innovations to maintain their first-mover advantage. Amazon has taken advantage of all these characteristics of the market, and has integrated innovation as part of its day-to-day: "Our business model encourages the simultaneous research, design, development, and maintenance of both new and existing products and services".[67]

As they are able to attract early adopters of these technologies, they gain credibility from the next wave of customers. Beyond consumers, first-movers in tech are constantly looking for innovation and will be able to attracting the necessary talent needed to build on product and service improvements.

To assess the impact of its innovation strategy, Amazon's core technologies are distinguished from its marginal technologies, below. Its core technologies are those that contribute significantly in bolstering the company's core competencies and abilities to fulfill its customer-centric missions and objectives in the e-commerce industry.

[66] Matt Mattrosoff, *"Amazon Will Be the Most Important Company of the 2020s."*
[67] Justin Fox*, "Amazon Doesn't Believe in Research and Development Spending."*

1. Core technologies

Delivery and logistics – One of Amazon's main objectives is to improve logistics management, and to reduce delivery times. Amazon's continued investments in automation to strengthen and overhaul its logistics management allow it to fulfill its goal in becoming more efficient for its customers. Innovations in robotics are also particularly relevant for Amazon, as these technologies are used in both the warehouses and in delivery systems. The impact of these initiatives will be explored in greater detail under **Value Creation**.

Data mining – Among certain innovations, Amazon most notably uses artificial intelligence to develop insights on the customers' behavior. Amazon uses this technology to sell its product, but also sell its data analytics to sellers. Its reach in gathering this data has gone beyond transactions on the website, and through to their hardware development such as Alexa and Kindle. With physical touch points now available through the likes of Amazon Go and Whole Foods, Amazon is able to capture spending habits beyond the digital realm. Through these different touch-points, Amazon is not only able to predict purchases for the benefit of the customer (to build on the aforementioned hyper-personalization), but also to help in stocking its warehouses and fulfilment centers.

Web development – As Amazon's innovations all link back to customer experience, the development of certain technologies to streamline online processes have been revolutionary. Take for instance the 'One-Click' purchase as described under the **Ansoff Matrix** – this seemingly simple innovation forever changed how online retailers could do business, and up until 2017, it remained an Amazon patent. Algorithms work to make the cheapest products readily available, easily offering up alternatives should they be out of stock.

Prime Ecosystem – The potential that the Prime ecosystem represents to both the consumer and to the company itself becomes apparent when considering that it was once described as an engine that powers Amazon's flywheel. "It is both an accelerant to Amazon's forward motion and a beneficiary."[68] The Prime model goes beyond an online subscription model, in that it also offers its customers discounts, bundled offers, and access to new technologies and initiatives before other customers. It links the e-commerce platform with Amazon's other business models, providing an extending reach over its consumers.

Generally speaking, Amazon invests only in initiatives that will add to its value proposition. Arguably, one could therefore assume that all of the company's technologies are a core technology. However, as Amazon has such an array of businesses, there are certain areas that have less of an impact as the technologies described above. These are set forth below.

2. Marginal technologies

Amazon Pay – While this could arguably be regarded as a core technology, as Amazon Pay is still gaining traction (albeit quickly), it adds to the overall user experience of the site, but does not determine it as some of the aforementioned innovations do. This will undoubtedly be one initiative that very well could be amongst the top of Amazon's core competencies in a few years' time.

Hardware – While the expansion of Amazon's services and products into hardware such as Alexa and Kindle increased the company's touchpoints, they are not as integral to the business as the above core competencies are. As aforementioned, sales through Alexa remain marginal. As a home assistant, Alexa exist to complement the online service, rather than replace it.

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[68] Noah Robischon, *Why Amazon Is The World's Most Innovative Company Of 2017*

Amazon Go – As per the above examples, while this is not a core technology for Amazon *yet*, the capacity for it to become much more important in their e-commerce business is apparent, as it bridges the gap between off- and online retail. Listed as an objective for the company, the expansion of the technologies used in Amazon Go (such as sensors) will likely become more important as Amazon increase their expansion into the supermarket arena.

Cloud – As Amazon has diversified its portfolio, it has developed a variety of new technologies that remain marginal to the e-commerce business, but should be considered core competencies to the company at large as they contribute to the revenues, and can therefore also contribute to future spending on additional innovation strategies.

Considering the aforementioned fact that Amazon's technologies all contribute to a larger ecosystem, its competency in innovation and establishing core technologies becomes plainly evident. Additionally, having innovation be so firmly integrated in its strategy, and believing wholly that in order to survive, one has to invent, Amazon's position as an innovation leader is conclusive.

Competencies in core technologies

Innovation approach		Low	High
	First Mover	Innovation Specialist	**Innovation Leader**
	Follower	Innovation Streamliner	Innovation Follower

8. Vertical Integration

Vertical integration is the process through which a company grows by integrating and controlling more elements of the value chain. Assuming a function previously realized by a supplier is called backward integration, while assuming a function that belonged to a downstream player is called forward integration. Vertical integration can be developed internally or by acquisition and can be backward, forward or both. To analyze Amazon's vertical integration, the below will start at its value chain, then its vertical integration and outsourcing.

8.1. Value Creation

The activities in Amazon's value chain can be characterized as strategic, complementary, and basic.

Amazon is known for putting the customers at the center of everything they do. For the company, customers are interested primarily in prices, convenience, and choice. Jeff Bezos believe those three dimensions should be at the core of Amazon's strategy[69]. Bezos thought originally that Amazon could be based on a web portal making the link between sellers, distributors, and buyers. In that regard, it can be considered that Amazon viewed its website management, its product offer, its pricing services, order and delivery management, and customer services as its main strategic activities.

Website management and innovation

Amazon assumes its platform to be at the start of the path to purchases for all kind of shopping. It combines expertise in retail with a third-party marketplace that offers a vast selection of products and services with personalized recommendations as well as convenience. The fact that Amazon offers third-party sales does not change its willingness to maintain brand strength and is based on the objective to offer a vast selection that includes sub-platforms for specialized goods and services such as Fresh for groceries and Home Services for handyman contracting. Despite is sub-platforms and third-party sale through its marketplace, Amazon maintains the feeling for its buyers that it is a unified store by maintaining its entire offer on its central platform. This centralization also allows more powerful buyers' data mining, contributing to a powerful personalization algorithm that enables a more efficient and expansive search process for the buyers. A key aspect of this objective of making Amazon's website the start of the path to purchase, is an efficient web environment constantly improved in terms of ergonomics and consumer experience. Amazon has notably developed the capacity to create, through its algorithms, a personal website for each of its consumer with recommendations based on purchasing history.

Pricing

Amazon believes it is its sales volume rather than its margins that will lead the company to success. This is why Amazon uses very sophisticated algorithms to constantly adapt its prices and remain competitive. It is indeed Jeff Bezos' idea that Amazon will conquer consumers by being known as the cheap online retailers.

Retail

Amazon started by selling books, but its success led it to increase its category of products very quickly, to the point that Amazon is today known for selling cars as well as uranium ore. Amazon believes that with more sellers, it

[69] Bill Gurley, Uber's New BHAG: UberPool

increases it offers and attracts more buyers. With more buyers, Amazons also attracts more sellers, creating a virtuous cycle for the company, as explored in greater detail under **Strategy**. Therefore, Amazon also opens its services to third-party sellers through its Marketplace. In addition to the fact that it shares the profits made on its platform by third-party sellers, the company sells services to those sellers. As explored, the pricing management of Amazon is powerful for its sellers and notably allows them to undercut their competitors. In addition, Amazon sells marketing services on the basis of the data it collects from its consumers. Finally, Amazon sells logistic services to third-party sellers through the Fulfilled-By-Amazon (FBA) service that will be discussed later. Finally, the marketplace allows Amazon to gain bargaining power with sellers, and in particular big brands that want to start third-party selling on the website. The Marketplace now accounts for over 50% of the goods Amazon ships and the company charges third-party sellers between 14 and 40%[70].

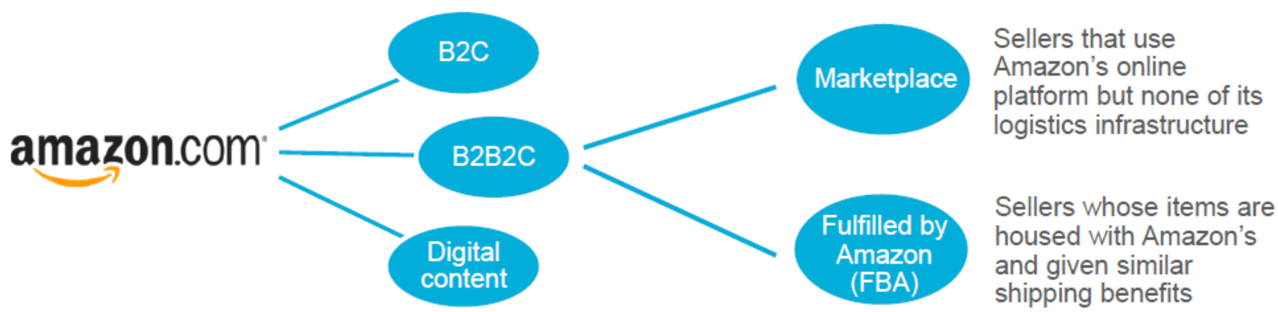

Figure 31 - Amazon product offer includes traditional retailer B2C with a third-party seller system that is either Fulfilled by Amazon or Filled by Merchant on the Marketplace

Delivery management

Amazon originally saw its role in the value chain as an intermediary with responsibilities in terms of delivery management as reliable, fast and cheap management was at the center of its strategy. However, the company quickly realized that this activity should be vertically integrated.

8.2. Modes of Vertical Integration

In line with its strategy, Amazon realized activities that some competitors could see as complementary activities, were in fact strategic activities and Amazon integrated them.

Shipping and Warehouse

The price and the convenience of Amazon's deliveries are central to its customer-centric approach. To save on costs, Amazon selects strategic locations for its **fulfillment centers**. It now has 61 sortation centers and 41 **Prime Now hubs** for the fastest deliveries. It notably uses favorable tax incentives to identify locations. In addition, the investments in robotics and artificial intelligence allow Amazon to increase its warehouse management and further save on costs. Amazon notably acquired Kiva in 2012 for $775 million to make technological progresses in the sector of robots. Its state-of-the-art fulfilment centers use over 45,000 robots and include vision systems that enable whole trailers to be unloaded in 30-minutes. This robotics technology is developed by **Amazon Robotics** and **KIVA**

[70] *Amazon.com: Third-Party Sellers Drive Profitability*

Systems, one of amazon's biggest acquisitions ($775 million in 20212). In 2019, Amazon signed a strategic agreement with **Cargojet** to increase transportation of packages between fulfillment and shipping facilities. The Amazon China division has also released investments in a freight fleet to move items from China to the US. In 2013, Amazon created Fulfilment by Amazon (FBA) to help integrate shipping for its merchants. Amazon became so good at this activity that access to Amazon's logistics is now a major selling point to merchants.

Delivery

Delivery is currently in a vertical integration process. While most of Amazon products are delivered through outsourced services, Amazon has invested in its capacities to deliver themselves, and in particular to its Prime subscribers so that they receive their orders as fast as possible. To implement this strategy in the United States, Amazon opened shipping centers to be present within in a 20-mile radius for 45% of the population in 2017, compared to 5% in 2015. Amazon contracts drivers in its Seller Flex Program to deliver packages for same-day delivery. Amazon also leases planes to its delivery partners for its **Prime Air fleet**, to deliver items more quickly in situations of peak demand. Amazon has a partnership with the US residential garage doors designer and engineer Chamberlain Group to provide In-Garage delivery service. In 2018, Amazon acquired **Ring** for $1 billion to develop the Amazon key service. Finally, the development of drone delivery in pilot cities promises to become another milestone in vertical integration. Cheap and reliable delivery is part of the Amazon differentiation point to the buyers and therefore the company continues to invest to improve the customer experience. In developing its own delivery system, Amazon became less reliant on third-party sellers (such as **UPS** and **FedEx** in the US). The acquisition of Whole Foods in 2017 for $13.7 billion was aimed at facilitating online ordering and pick up of grocery via Whole Foods' network, but also facilitated the pick-up of ordinary Amazon orders.

Private label

As Jeff Bezos states that Amazon's strategy is to grow through volume rather than margin, it is not surprising to see the company expanding through private labels. Its access to consumer data helps Amazon selecting the right opportunity in private labels' expansion. Significant examples of this include AmazonBasics that originally offered commoditized versions of simple consumer electronics and accessories and now include a vast offer of cheap product from electronics through kitchen. Amazon also entered the potentially very profitable business of apparel, notably through the acquisition in 2009 of Zappos for $1.2 billion to create private labels clothing brands. Amazon is growing fast in this sector as it is expected to reach 14% of the US market in 2020, starting from 5% in 2015[71]. This approach is bringing results as Amazon Echo brand holds 45% of market share and its smart speaker is the most popular of all those sold online. AmazonBasics accounts for 1/3 of online battery sales, has a 93% yearly growth and is sold at 94% on Amazon's website. Amazon Elements brand focuses on baby wipe sales.

Electronics manufacturer

In terms of electronic manufacturing, Amazon's strategy is to sell technologic items at margins to ensure high volume of sales and achieve a high penetration. This allows the company to use those products' software to increase sales. Therefore, Amazon manufactures and sells Kindle at cost. The idea is that this will strengthen Amazon's retailer position by attracting buyers to its environment, which in the case of Kindle is composed of Prime and Kindle books. Amazon pursues the same strategy with its tablet and its smart speakers.

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[71] Eugene Kim, *Amazon quietly launched 7 fashion brands while ramping up hiring for its own clothing line*

Figure 32 - Amazon's backward (grey) and forward (red) vertical integration

8.3. Strategic Outsourcing

While Amazon has been continually active in terms of vertical integration, the company does outsource many activities, including through strategic partnerships.

Competencies in core technologies

Potential competitive advantage

	Low	Medium	High
High	Delivery Warehouse	Inventory management Product development	Website Pricing Retail Delivery management R&D
Medium	Delivery Warehouse	Delivery Payment services Product development	-
Low	Customer service		-

Strategic Outsourcing	Market Purchase	Internal Production

Customer service

Among the customer-centered activities, customer service is perhaps the only activity that is mainly outsourced. Amazon however invests in the service convenience and reliability to increase customers' confidence in the company. It notably develops voice support and virtual assistant services.

Payment services

Payment infrastructure is close to Amazon's strategic retailing activities and Amazon has developed a reliable payment infrastructure. This is part of Amazon's customer-centric vision as the company wants to make payments more cash efficient for itself and frictionless for the customers. As a result, Amazon has invested massively in the sector over the years. A service like Amazon Pay now include a digital wallet for customers and a payment networks for online as well as brick-and-mortar sellers. Amazon develops this activity mainly externally through strategic partnerships. In this context Amazon has realized a strategic partnership with WordPay, an intermediary between banks and merchants, to increase their access to AmazonPay. Thanks to a partnership with Western Union, consumers from 16 countries that were not able to purchase goods on Amazon can now do so. To increase third-party sellers' capabilities to sell on the Marketplace, Amazon offers a lending program called Amazon Lending. This service has allowed Amazon to lend $5 billion to 20,000 businesses from the US, Japan and the UK between 2011 and 2019. Through various partnerships, Amazon also lends money to consumers via services such as Amazon Prime Store Card (Synchrony Bank), Amazon Visa Credit Card (Visa) among others.

Delivery

While Amazon has been developing its own delivery services, it has grown and still relies on several external delivery services, including UPS in the US. Some of them can be considered as long-term strategic partners.

Product Development

As a retailer, Amazon remains a company that depends on many suppliers with which it develops sometimes strategic relations.

Amazon originally thought that its business could be based on a web portal making the link between sellers, distributors, and buyers. The company however quickly realized that some complementary activities were not as efficient as desired which was problematic for its business: the supply chain management. The company understood that people buy on Amazon because delivery is cheap, fast and reliable. To solve this situation, Amazon started the vertical integration of supply chain related activities that were so far considered as complementary activities. This is particularly the case of the warehouse and shipping steps of the value chain. The company became so good with those activities, that is now sells its services to third parties. We can therefore consider that over the years, Amazon has been a company that excels at identifying complementary activities that could be considered as strategic, but also very efficient in terms of vertical integration.

9. Internationalization

Amazon has been increasing its global footprint continuously, relying on internationalization as one of its main growth engines. After starting in the US only, it now has 17 country specific sites and delivers to almost all regions.

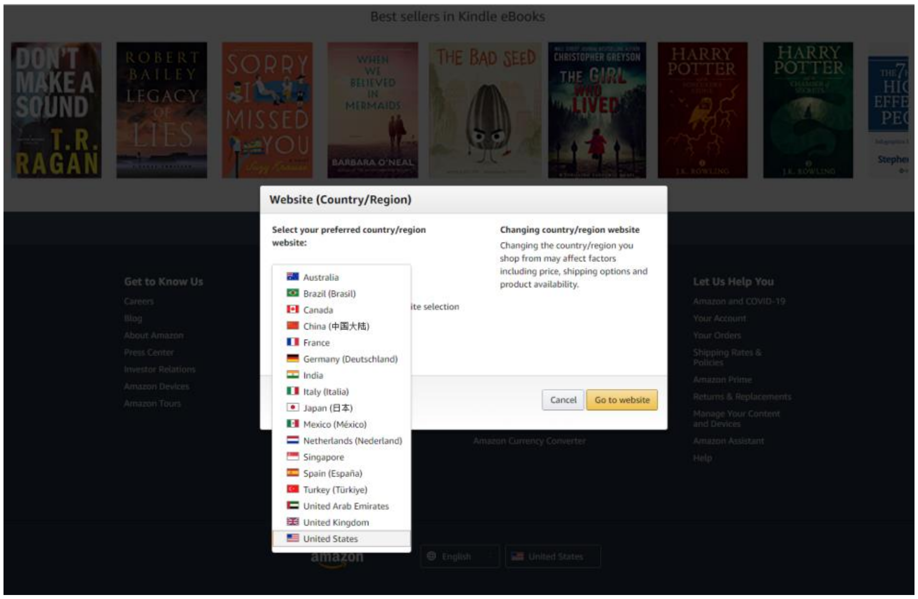


Figure 33 - Amazon's country selection

Amazon's internationalization impacts sustainable value creation components, with an effect that depends per geography.

Growth has been obtained by entering new markets and reaching an incremental number of potential customers previously excluded or covered under sub-optimal conditions, with international shipments and no access to the Prime program. Even when a region is not directly covered, having neighboring countries (like Spain for Portugal) improves the quality and speed, if in a lower tiered relationship. Entering new markets also opens the door to expand into new categories that may previously have been overlooked due to the lack of demand in the US market, but central in new location. Also, by operating in such different markets and reaching such a wide customer base, Amazon gains a wealth of information that then leverages its dynamic algorithms for pricing and allows it to better understand demand. In this way, Amazon is able to adapt its offering, and take the most advantage of each its geographies' singularities to keep boosting its growth.

In terms of margin, the situation varies significantly between countries. While Western Europe, Canada, Australia, Japan and Singapore have lower but comparable wage levels to the US; Brazil, Mexico and China are a distant level away. Analyzing in terms of physical resources, the same countries have availability at lower costs, constituting this as an attractive characteristic in terms of margin. Another advantage to this, are the savings from economies-of-scale in diverse functions, as well as the know-how available to be leveraged across more countries. Another key potential margin booster is the increase in bargaining power that Amazon gets as it increases in size. Some suppliers produce exclusively or at least have a great dependence from Amazon in their sales, leaving them in a weaker negotiating position. If one considers that growth in relevant markets has been disproportionately coming from online and that Amazon is a leading player, the bargaining power on Amazon's side is great and increasing.

Regarding risk, expanding in this scale reduces the exposure to events outside Amazon's control. By entering new markets, the company's risk is more diversified, even if some of the countries have individual challenges. It is unlikely that outside of a global issue, the company is significantly affected by one or a small group of events, as its business is spread across different continents and product categories. In terms of competition, the potential emergence of a challenger is more likely to affect one market or its region, which again is aligned with the argument of Amazon's expansion mitigating risk to external shocks. And the same applies to any kind of other risks such as legal, political or exchange rate volatility due to this diversification.

1. Country attractiveness

For the sake of making the Country Attractiveness assessment applicable not only to the ones listed in the matrix, but possible to transpose to comparable ones, ones where there less variability among them were clustered among the group, making it less risky to extrapolate when looking at additional ones beyond the matrix. The four blocks below are the most relevant from Amazon's localized expansion, and can be used to lead an analysis on potential others. These groups represent: developed markets like Western Europe, Australia or Canada; Less developed markets where labor and assets are cheaper, but where some organizational and/or political issues can limit growth; China separately as it is a very particular case when combining all the factors described above; and finally, Singapore and Japan, which despite representing developed markets in Asia, closer to Western Europe's assessment, but in a specific geography and culture, we opted to separate due to the market size difference.

Factor	Weight	EU, AUS, CAN	BRA, MEX, IND	CHI	JAP	SING
Sales						
Market Size in Volume	10%	6	7	9	7	4
Average Price Level	10%	9	3	5	8	9
Access to the Distribution Network	10%	9	5	7	8	8
Sales Assessment	30%	2.4	1.5	2.1	2.3	2.1
Growth						
GDP Growth Rate	5%	2	7	9	4	4
Population Growth Rate	10%	5	8	5	3	3
Market Growth Rate	10%	2	7	9	4	4
Openness to International Trends	5%	8	6	4	7	7
Growth Assessment	30%	1.2	2.15	2.05	1.25	1.25
Margin						
Access and Cost of Labor	5%	2	6	8	3	3
Cost of Land, Materials and Equipment	5%	2	8	7	4	4
Barriers to Imports	5%	8	6	2	7	7
Legal Regulation	5%	4	6	2	3	3
Margin Assessment	20%	0.8	1.3	0.95	0.85	0.85
Risk						
Foreign Exchange Risk	5%	8	3	8	8	8
Political Risk	4%	7	4	5	6	6
Competitive Risk	3%	5	5	2	4	4
Risk Assessment	12%	0.83	0.46	0.66	0.76	0.76
Sustainability						
Environmental Sustainability	3%	9	4	5	8	8
Social Sustainability	3%	8	4	5	8	8
Governing Sustainability	2%	7	4	8	7	7
Sustainability Assessment	8%	0.65	0.32	0.46	0.62	0.62
Global Assessment	**100%**	**5.88**	**5.73**	**6.22**	**5.78**	**5.58**

From analyzing the table with the key country groups, it is possible to conclude that although all are fairly balanced in their Global Assessment score, China leads driven by the combination of its size and growth. More developed countries suffer from their lack of growth and margin increment expectations, an area where China, Mexico and Brazil outperform. More developed countries over-perform on present conditions but lack the potential available in China, Brazil, Mexico or India.

2. Nation's competitive advantage

Each nation has its key competitive advantages and as seen for the country attractiveness, a few patterns emerge, and groups of nations tend to be aligned. Looking at the EU, Australia, Canada, Singapore and Japan, they all perform well in Factor and Demand conditions, an area less well-positioned for China and even less so for Brazil, Mexico and India. On the other hand, China has a dominant e-commerce player in Alibaba, that along with less sizeable companies constitute a fierce environment in terms of competition.

Competitive Advantage of Nations Table

	EU, AUS, CAN	BRA, MEX, IND	CHI	SING, JAP
Factor Conditions				
Demand Conditions				
Related and Supporting Industries				
Firm Strategy, Structure, Rivalry				

Amazon's internationalization uses the direct Investment mode. Instead of the less integrated options such as just franchising, working through agents or simply on a project by project basis, Amazon establishes a local subsidiary integrated in its global structure that runs the business for the specific geography. Simultaneously, and until a specific isn't large enough for to open a local subsidiary, they export from the regional bases which allows them cover almost every country in the world.

Internationalization Modes

Transactions	Investment	Projects
amazon.com	amazon.com	

Amazon is already in the Global stage of internationalization. Its scope is the entire world, owning integrated subsidiaries for key countries and exports for practically all others, is specifically customer-oriented in all its geographies, an area where all parts of the company are connected, whether in HR, Finance or Products.

	Domestic	International	Transnational	Global
Geographic Scope				amazon.com
Internationalization Modes				amazon.com
Business Orientation		amazon.com		
Main Issues			amazon.com	

3. International integration and responsiveness

Amazon can be considered a Transnational company. Its level of Global integration is well established but without ever losing the local responsiveness. The company's client focus policy that emanates from the top, forces each subsidiary to locally adapt its offering to the local customer. Amazon standardizes as much as possible on products, policies, marketing, and website layout among others, but client satisfaction can be justified, adaptation happens. For example, although the Prime program is present in all key markets, its content can vary. Even within the same country where it was founded, this can be observed. If one considers the delivery window, for example, Prime members can receive their products in two days. But with the high demand for a more immediate option in certain urban areas, a 90-minute delivery option was created. And that **responsiveness to clients' needs** has been the cornerstone of Amazon's success over the past years.

		Local Responsiveness	
		Low	High
Global Integration	Low	amazon.com	
	High		

10. Diversification

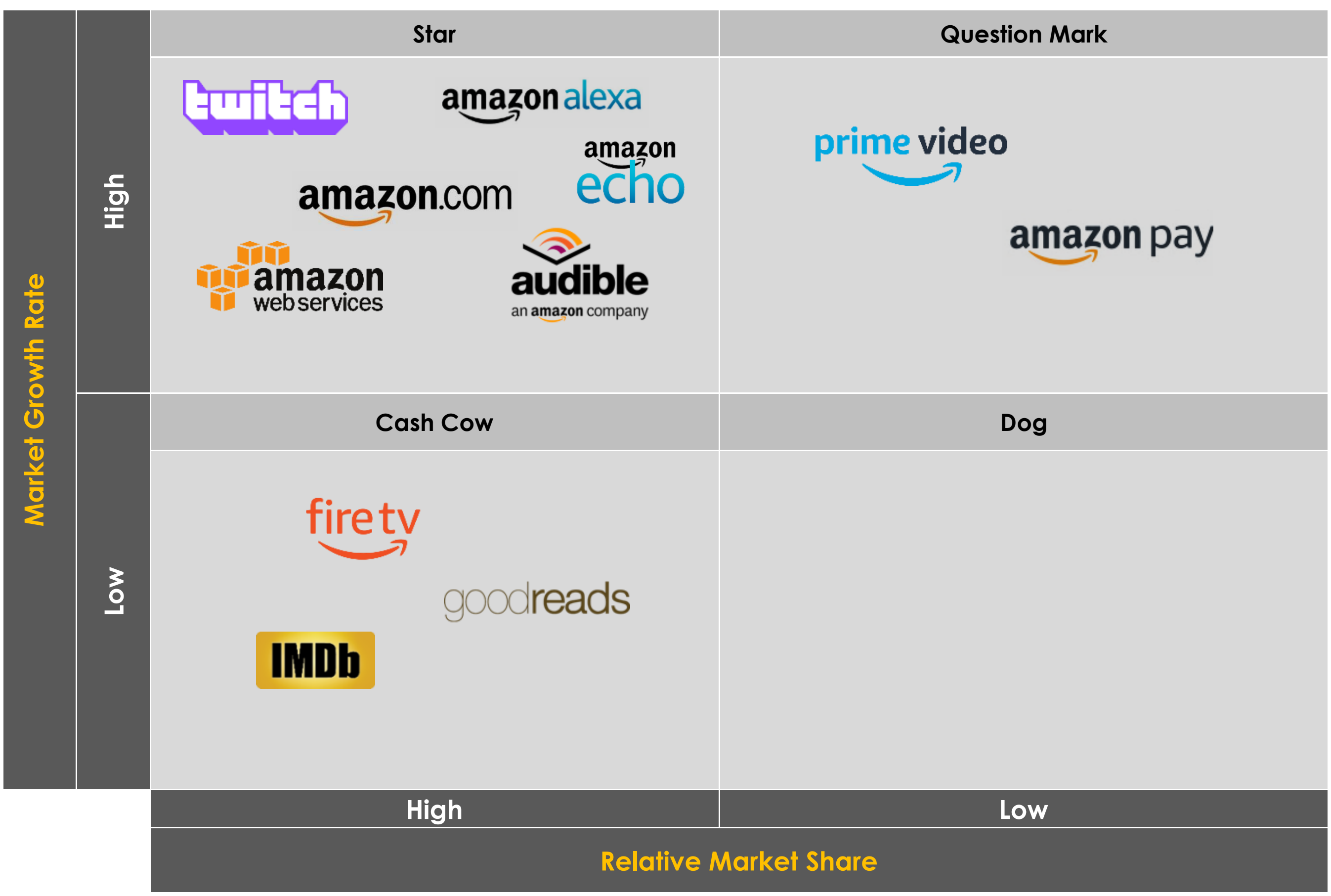
Amazon started as an e-commerce business, which is now the core business of the company, but since then the company has invested in a strong diversification strategy.

As seen in the Products-Markets business strategy, Amazon has several services and products both developed internally and acquired to boost the online retail ecosystem. In this chapter will examine how the company has also developed many products and services exploring other areas of business.

Amazon diversifies through internal development and acquisitions. The company can be considered a large conglomerate of both related and unrelated businesses. Since its initial public offering (IPO) in 1997, Amazon has acquired several companies. Some of the most known subsidiaries include IMDB, Twitch, Audible, etc. Presently, Amazon has over 100 subsidiaries. This chapter will only focus on the most relevant names (due to the big quantity) to gain insights on how the company is investing in its diversifying strategy.

10.1. BCG Matrix

The BCG model classifies each business according to market growth and relative market share, making it easy to understand each business position and which strategic recommendations to be applied to each business. This model was used to map the main businesses of Amazon both developed internally or externally by acquisitions of other companies.



1. Cash Cows

Amazon Fire TV

Amazon launched a series of products related to the Fire brand but the main objective of the brand is to gain leadership on the connected TV segment. Amazon Fire TV has around 30% of the segment market share and is predicted to grow at a medium rate. For this reason, it has been classified as a cash cow.

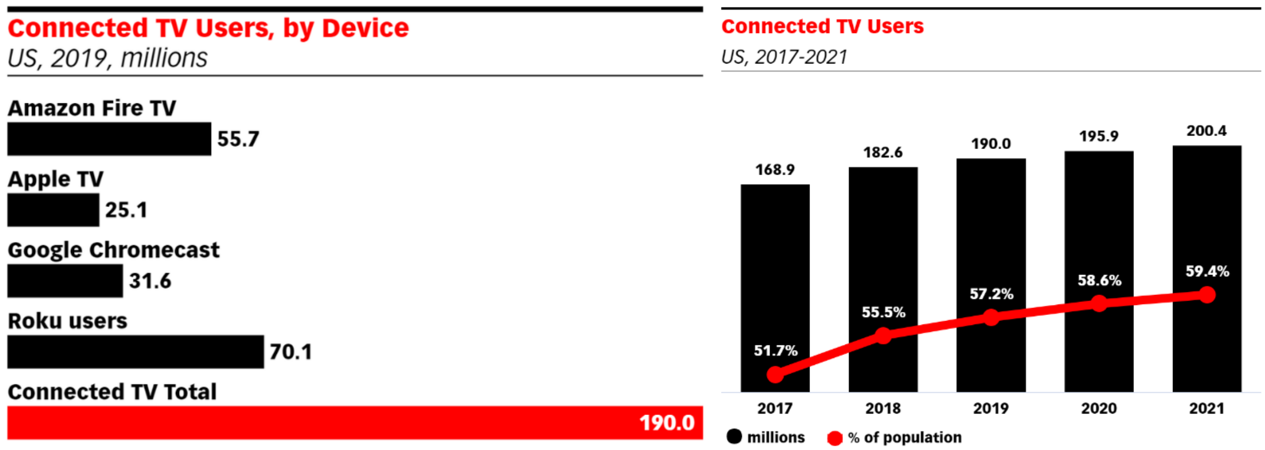


Figure 34 – Amazon Fire TV market share (left); Connected TV users growth (right)

IMDb

The Internet Movie Database, better known as IMDb, is an online database that provides information on television shows, movies, actors, and producers. Amazon bought the company in 1998 due to the interest in ad revenue and strategic licensing deals as well as premium subscriptions. The company has been consistently making $40M annually in revenue and is on the internet technology sector, but for now, due to its scope, it is not growing at high rates, despite being the top player in the area with +40% market share (calculated based on number of website visits). This results in it being classified as a cash cow.

Goodreads

With more than 90 million registered users, Goodreads is an online community of book readers allowing the discovery of new titles, book reviews and the ability to share reading lists with others. Amazon purchased the website in 2013. Although it looks like the most used web library in the world, there was not sufficient data available to classify the company properly. It looks as though the company has a high relative market share of the segment, but the sector is not growing at such a high pace.

2. Stars

Amazon.com

amazon.com is the primary business of Amazon. It was the main focus of this report and the foundation of the Amazon conglomerate. The business is classified as a Star because of the high market share of Amazon (especially in the US market) and the high growth rate of the sector.

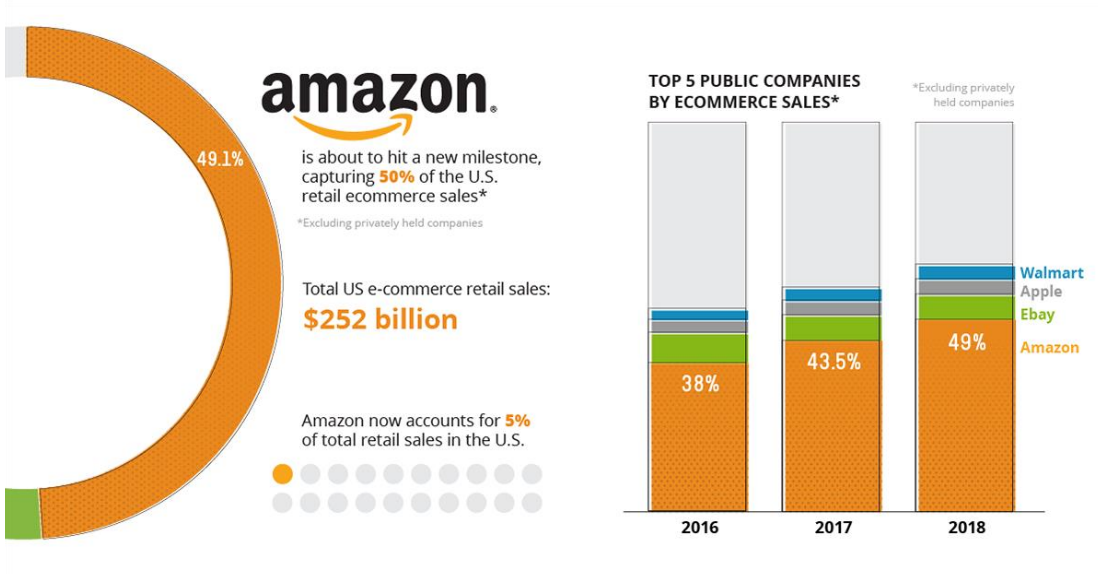


Figure 35 – Amazon market share in the US

Figure 36 – Growth rate of the ecommerce sector in the US

Audible

The largest producer and retailer of audiobooks in the United States, Audible Inc. is one of Amazon's most well-known businesses. Following a $300 million acquisition in 2008, the company became a subsidiary of Amazon. In addition to selling audiobooks, Audible provides its customers with downloadable audio versions of newspapers, magazines, and radio programs. Audible has **over 40% of the market share** of book-related audio content and the sector seems to be growing at a high pace according to the below graph.

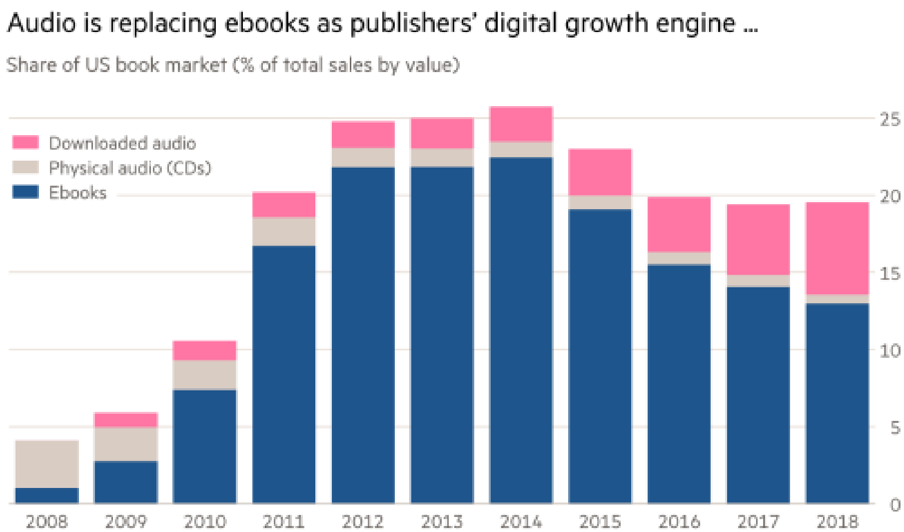


Figure 37 – Audio books growth, Association of American Publishers 2019

Amazon Web Services

A subsidiary of Amazon that provides on-demand cloud computing platforms and APIs to individuals, companies, and governments. According to the data below, Amazon Web Services has already captured a big relative market share on a sector that is growing at a high rate.

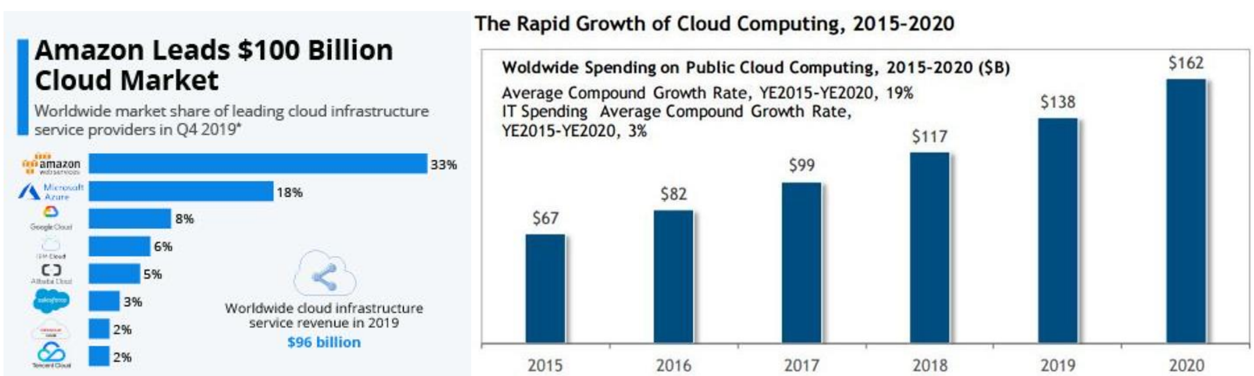


Figure 38 – Amazon Web Services market share (left); Cloud computing growth (right)

Amazon Echo/Alexa

Amazon Echo is a brand of smart speakers developed by Amazon. Echo devices connect to the voice-controlled intelligent personal assistant service Alexa. The relative market share of the business is high, at **69%**, and the growth rate of the segment is also high as can be confirmed below.

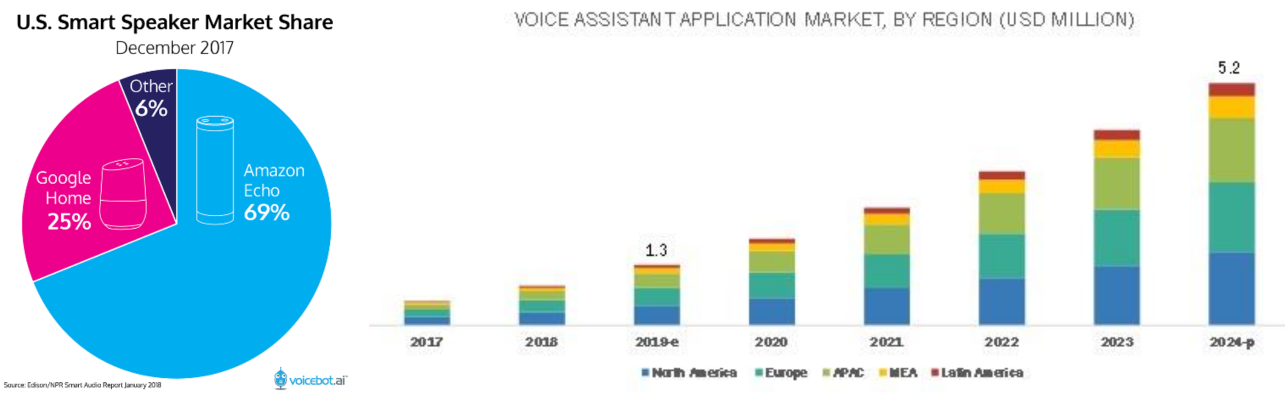


Figure 39 – Amazon Echo market share (left); voice assistant market growth (right)

Twitch

A video live streaming service operated by Twitch Interactive, a subsidiary of Amazon. Introduced in June 2011, the site primarily focuses on video game live streaming, including broadcasts of eSports competitions, in addition to music broadcasts, creative content, and more recently, "in real life" streams. Content on the site can be viewed either live or via video on demand. Due to the high **relative market share, 72%**, and growth of the online live video sector, Twitch can be considered a Star.

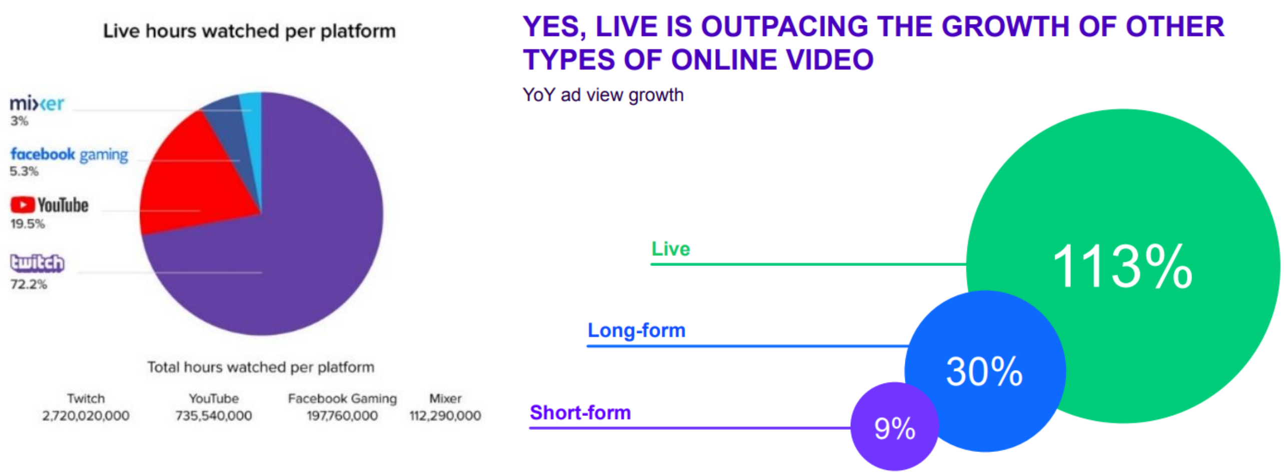
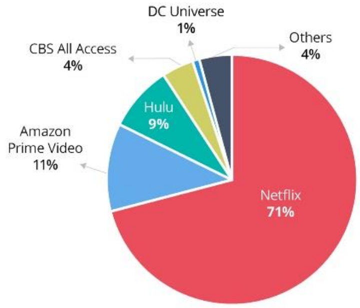


Figure 40 – Twitch market share (left); Live stream video growth rate, 2019 (right)

3. Question Marks

Prime Video

Prime Video is an on-demand video service, offering television shows and films for rent or purchase, and a selection of Amazon Studios original content and licensed acquisitions included in the Amazon's Prime subscription. Amazon Prime Video has 11% of the worldwide market share, which seems relatively low but is the second place of the list. The growth of the market is high. For those reasons, the service was classified as a question mark, it could be classified as a Star but the race to leadership may depend several variables regarding investment in content and exclusivity contracts.



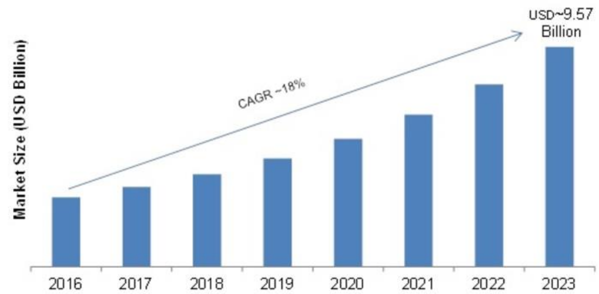


Figure 41 – Prime Video market share, 2018 (left); online video market growth (right)

Amazon Pay is the online payments processing service that is owned by Amazon. Launched in 2007, Amazon Pay uses the consumer base of Amazon.com and focuses on giving users the option to pay with their Amazon accounts on external merchant websites. Although Amazon Pay has a low relative market share the rate of online payments is growing globally, positioning Amazon Pay as a question mark. Furthermore, Amazon Pay should be seen not as a single value proposition, it should be viewed as the entry key of Amazon in the Financial ecosystem.

4. Dogs

Amazon has a very efficient strategy in terms of growth. If the business is not growing and is small, then it is closed down. Dogs do not last very long at Amazon. Endeavors like Amazon mp3 or Pets.com could be mentioned, but businesses such as those were reframed to new endeavors.

10.2. Key Insights

Amazon is diversifying into many areas of business. Those areas of business include brands video/audio streaming (Prime Video, Twitch, Audible, Fire TV); voice interface (Echo, Alexa) and other services related to the business (Goodreads, IMDB, Amazon Pay).

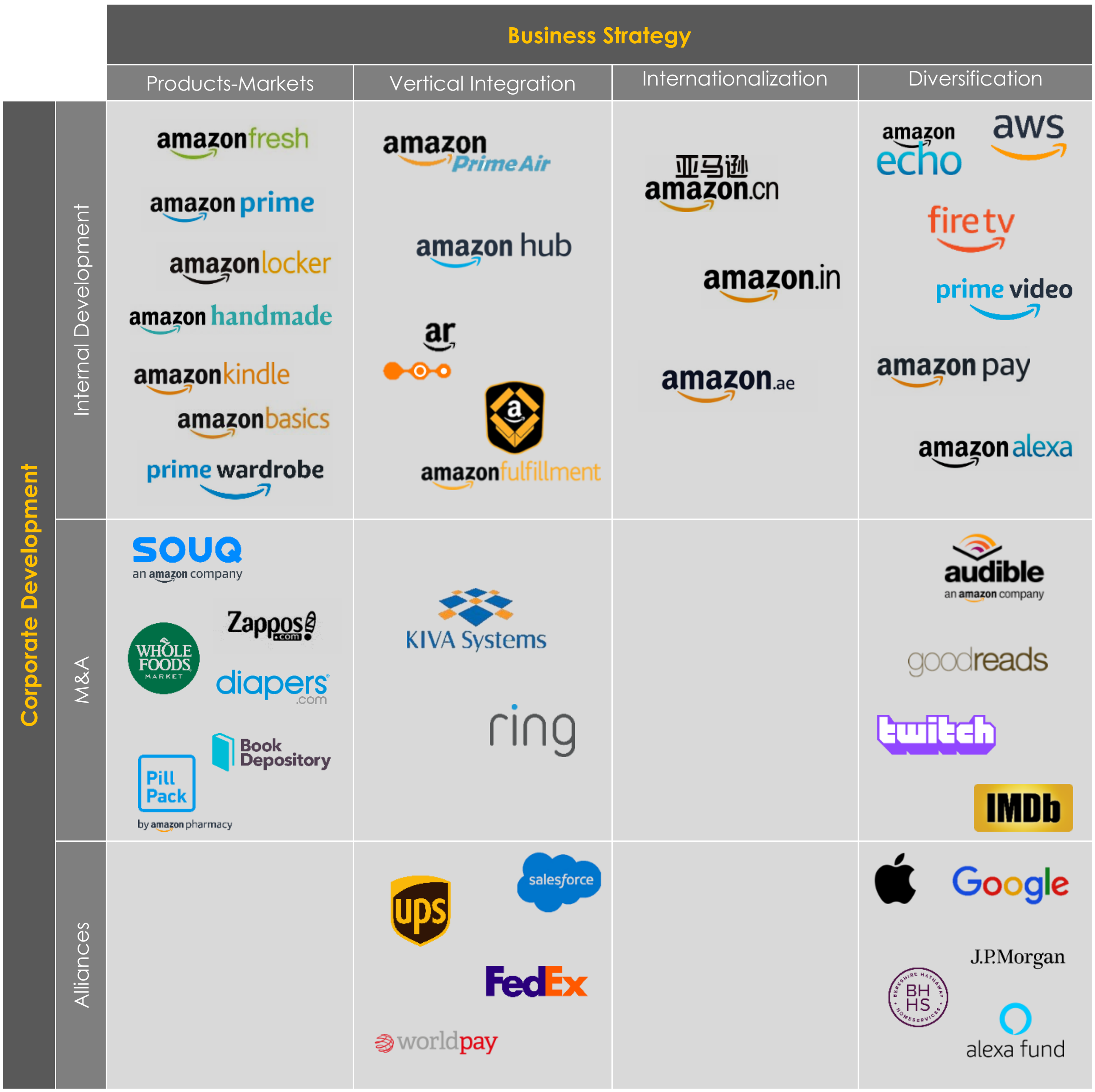
The main insight of this strategic vector is that the future growth of Amazon can be anticipated by understanding what things will become relevant in the consumers lives. Amazon wants to be present in people's lives technology related, from what they need (retail) to what they use (electronics) to what they use it for (entertainment). By developing an ecosystem of interconnected products and services Amazon keeps being more and more relevant in people's lives.

From a simplistic point of view we can say the company started by selling books. Then it expanded to all sorts of categories. Kindle was the first step in the electronics ecosystem, leading to the expansion into multiple devices, through Fire. But these platforms needed content, the reason for Prime Video, Twitch, Audible and Fire TV. But at the other end of the consumer experience of entertainment there is the search and research. For that, Amazon has already become relevant by acquiring Goodreads and IMDB. And let's not forget services become cheaper with bundle strategies, the reason for Amazon Prime. More companies are adopting this ecosystem strategy, "trapping" the consumer in it's web of interrelated services. Apple is a great example, but Amazon seems to be reaching for much wider bundled value propositions for the consumer.

11. Corporate Development

Corporate development in amazon is mainly done trough three different vectors: Internal Development, Mergers and Acquisitions and Strategic Alliances. The following matrix intends to summarize the key products and services of Amazon previously identified in the four vectors of the strategic analysis, divided by type of corporate development, in a **non-exhaustive way**.

In this chapter we will look at some insights on how Amazon has developed its company through acquisitions and alliances.



11.1. External development: M&A strategy

Amazon started to have a more intensive and aggressive acquisition strategy in 2017, making 11 acquisitions one of which the biggest to date, Whole Foods. In 2018 the company followed with 5 acquisitions, including Ring, Zappos and Pill Pack, and 7 acquisitions in 2019. As seen troughout the report the acquisition strategy has been done for two main goals: **expansion of products-markets** and **diversification strategy.**

The important factors for Amazon when acquisitions are concerned is:

1) **Augmentation of the consumer base**: amazon is interested in acquiring customers and for that strategic purchases, such as Souq are fundamental, but the company also wants to capture different segments, and for that it acquires niche companies such as Diapers.com, Pill Pack, etc.

2) **Ecosystem augmentation**: a rapid diversification strategy demands acquisitions to augment the range of Amazon's ecosystem of services for the consumer. Examples are Twitch, Audible, IMDB, etc.

3) **Technological innovation**: examples such as Kiva Systems (which brought robotics to Amazon), Annapurna Labs or even ring demonstrate how Amazon is interested in improving the technologies used in its operations, being it the warehouses or its web services.

The 10 biggest deals made by the company clearly demonstrate the interest in building a well diversified business: media and content (LOVEFiLM, Twitch), e-commerce (Souq, Quidsi, Zappos), computing hardware (Annapurna Labs), robotics (Kiva Systems), smart homes (Ring), and healthcare (PillPack).

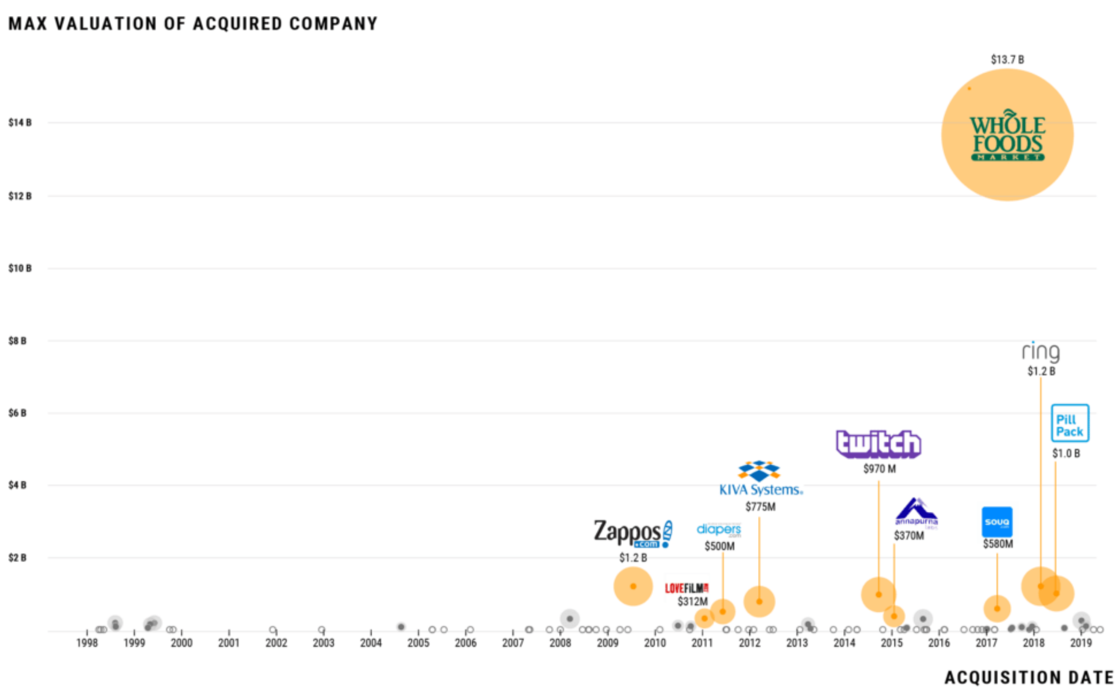


Figure 42 – Prime Video market share, 2018 (left); online video market growth (right)

1. Whole Foods ($13.7B, 2017) dwarfs Amazon's second-largest acquisition by more than 10x. The acquisition dramatically expanded Amazon's brick-and-mortar footprint, as well as giving Amazon a much stronger position in grocery delivery that capitalizes on Whole Foods' large and loyal customer base.

2. Ring ($1.2B, 2018) is a Wi-Fi-enabled doorbell that streams live video of a home's doorstep to a smartphone or tablet. The acquisition helped strengthen Amazon's smart home offerings, and literally opened the door for Amazon couriers to leave packages inside customers' houses.

3. Zappos ($1.2B, 2009) was Amazon's first $1B+ acquisition. Known for its unique culture and customer-centric ethos, Zappos fit neatly with Jeff Bezos' relentless customer-focused approach and brought an online competitor into the Amazon fold.

4. PillPack ($1B, 2018), the most recent of Amazon's 10 largest acquisitions, notably confirmed Amazon's long-rumored entry in healthcare. The markets reacted accordingly, with share prices for several incumbent pharma companies diving nearly 10% on the news.

5. Twitch Interactive ($970M, 2014) is a video game platform and community. The deal raised eyebrows at the time, but Amazon has since capitalized on Twitch's fiercely loyal fan base to gain a competitive advantage as major tech companies zero in on cloud-based gaming as a big emerging market.

6. Kiva Systems ($775M, 2012), a robotic fulfillment system manufacturer, was the one of Amazon's most impactful acquisitions to its long-term business — no e-commerce competitor has yet been able to rival Amazon's warehouse automation.

7. Souq.com ($580M, 2017), based in Dubai, gave Amazon a beachhead in the growing Middle Eastern market. International expansion remains a focal point of Amazon's strategy, particularly in emerging markets.

8. Quidsi ($500M, 2011), the parent company of Diapers.com, was one of Amazon's largest acquisitions at the time. Just a few years after the deal, Quidsi co-founder and co-CEO Marc Lore left to launch Jet.com, which Walmart subsequently acquired for $3.3B in 2016. Amazon ultimately shut down Quidsi in 2017, citing profitability concerns.

9. Annapurna Labs ($370M, 2015), an Israel-based semiconductor startup, was reportedly acquired with cloud computing in mind. Annapurna's chip technology was subsequently used to make Amazon's cloud business, AWS, more cost-effective to run.

10. LOVEFiLM International ($312M, 2011) represented one of Amazon's earlier forays into content treaming, back when the DVDs-by-mail model was still robust and online streaming was only beginning to achieve widespread popularity. Six years later, with DVD rentals all but extinct, Amazon shuttered the company.

11.2. External development: Strategic Alliances

As outlined above, while Amazon do have some strategic alliances, its corporate development mainly consists of internal diversification, or outright acquisitions. The below offers a small snippet into this insight, where the select few acquisitions analyzed in this report still outnumber the most significant alliances. With that in mind, however, there are some key strategic alliances that Amazon has formed over the years, that have allowed it to build on its distribution capacities, its online capabilities, and its R&D.

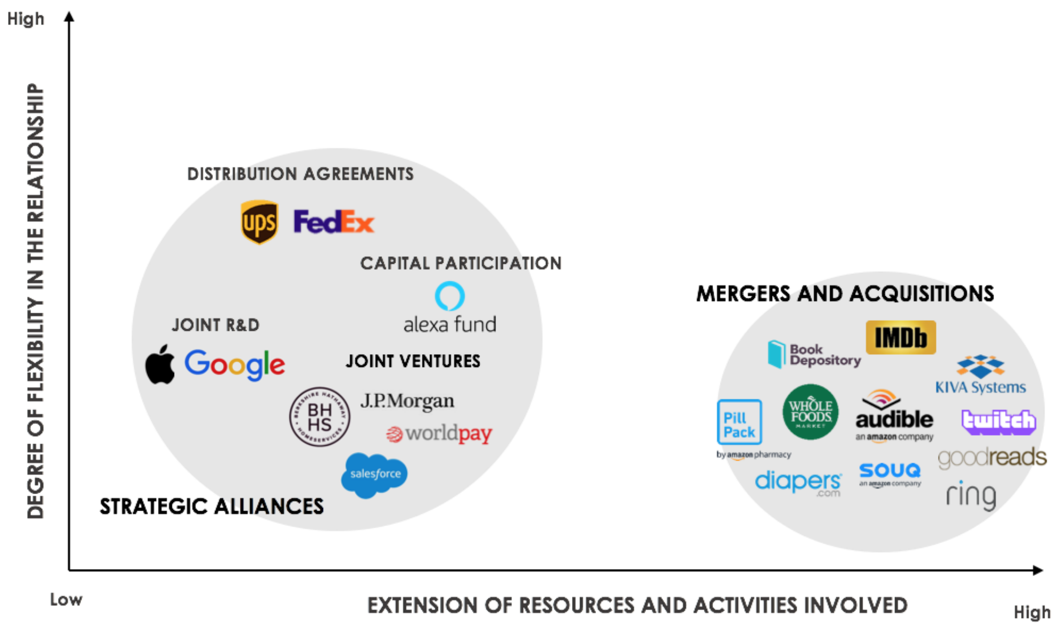


Figure 43 – Amazon's strategic alliances

Distribution Agreements

One of the most important strategic alliances Amazon has is in its distribution network. While Amazon has an extensive network of its own fulfilment centers and distribution networks, it still relies on partnerships with other key logistics provider. However, with investment into its own supply chains, partnerships are now on the cusp of turning into rivalries.

Before the early 2010s, Amazon was heavily reliant on its network and partnerships with logistics companies such as **FedEx** and **UPS** to outsource deliveries. When Amazon started expanding its own fulfilment centers and distribution networks around 2013, many assumed this would result in the outright acquisition of either of these companies. In 2015, however, Amazon broke ground on a $1.5 billion air hub, which would "enable it to further control its own shipping and cut its reliance on UPS, FedEx, and the **USPS**."[72]

In 2019, FedEx cut ties with the online retailer on a more holistic level, though its services are still offered through third-party sellers. When the partnership was more officially dissolved, it set the stage for a turbulent transition. In

[72] Katie Schoolov, *Amazon is rapidly expanding its air fleet to handle more of its own shipping*

December of 2019, for instance, Amazon banned FedEx's ground delivery services due to what Amazon had claimed was "poor delivery"[73]. The move, directly before the busiest holiday retail season, sent a clear message to FedEx: Amazon was more valuable to FedEx than they were to the online retailer. The strategy worked, and in January 2020, the company resumed FedEx Ground and Home delivery services.

The souring relationship between Amazon and many of these logistics partners has also become a focal point of President Trump's national business agenda, who has suggested Amazon has exploited the USPS, and should "build their own post office"[74]. Considering the billions of dollars Amazon spends on these outsourcing contracts a year, if current trends are an indicator, it would seem that Amazon is indeed on their way to creating their own de-facto postal service.

Joint Ventures

As a general rule, Amazon's joint ventures focus on the e-commerce side of their business, working with software providers that can benefit the consumer.

An example of this is in the **FIS Global** (formerly Worldpay, Inc) and AmazonPay joint venture. The partnership enables merchants to accept AmazonPay payments on an ever-wider array of websites, as outlined under **Strategic Outsourcing**. This means an Amazon consumer does not need to fill in their details for purchases outside the Amazon bubble, being able to use their Amazon digital wallet instead. As has been demonstrated earlier in this report, what Amazon has learned to do offer best, is time. The convenience of this model is attractive to both parties, with Amazon having access to millions of additional merchants, and merchants having access to Amazon's impressive datapoints.

A further joint venture which boosts Amazon's core e-commerce business is its partnership with **Salesforce**. The initial partnership started as a services agreement in 2016, and has now been expanded to include data integration between the two companies. Salesforce's main focus is in customer relationship management, enabling businesses to connect with customers more easily, and providing key data and insights on consumers. As the customer is at the heart of everything that Amazon does, this partnership is a crucial one for the company.

Another approach in reaching more consumers comes through disruption. As has seemingly become Jeff Bezos' modus operandi, in 2018, Amazon disrupted another industry: healthcare. Leveraging its acquisition of PillPack, Amazon entered into a joint venture with **Berkshire Hathaway** and **JP Morgan**. While currently only serving the employees of each respective company, the insurance provider has the potential to reach an entirely new segment of consumers in a $670 billion private insurance market[75]. Combined with the above acquisition as an example, the potential for creating new touchpoints and expanding Amazon's consumer base is significant.

Joint R&D

In a move that surprised consumers and industry-insiders alike, in December 2019, three of the most powerful companies in the world announced a partnership. Amazon, Apple and Google will collaborate together to build a common standard for voice assistants. This rare alliance, **Project Connected Home** would be an "an effort to avoid a turf war that limits the market for gadgets powered by Alexa, Siri and Google Assistant"[76]. The idea behind the

[73] Annie Palmer, *Amazon lifts FedEx ground delivery ban for sellers, FedEx shares rise*
[74] Tyler Sonnemaker, *Trump challenges Amazon to 'build their own post office'*
[75] Zachary Hendrickson, *Amazon, JPMorgan, and Berkshire Hathaway's health insurance JV is expanding to cover more employees*
[76] Patrick McGee, Apple, *Amazon and Google form alliance for smart home devices*

partnership is that consumers would not be limited to one product or one provider, but instead, could rely on products being compatible. This alliance benefits all three companies: Siri users could be directed to Amazon; as Alexa could direct consumers to Apple products. It is a strategic move that may not determine market share as such, but does increase consumer reach significantly for each entity.

Capital Partnerships

The potential revenues in the home automation system offer an insight as to why Amazon would enter into a partnership with two of its biggest rivals. Another way in which Amazon is seeking to grow in this sector is through the **Alexa Fund.** The fund provides up to $200 million in venture capital funding for voice technology innovations. This more stable relationship model allows Amazon build trust with each entity and commit to the companies over time. Of the 73 companies that Amazon has invested in since the start of the fund in 2015, they have acquired eight outright, including the aforementioned **ring**.

Ultimately, and as with their acquisitions and development strategies, even strategic alliances are undertaken to support Amazon's obsessive customer focus, extending their reach that bit further, and farther than many had perhaps thought possible. The growth potential for Amazon is seemingly limitless, as they find new ways to engrain themselves into the everyday thinking of consumers around the world.

12. Looking forward

To assess a company's current position and prospects, creating a SWOT matrix enables the alignment between internal and external factors. The framework enables decision makers to have a snapshot of their current position in terms of Strengths and Weaknesses, alert to Threats that the company can try to mitigate and list the available Opportunities to be seized.

Since the original SWOT analysis lacks the timeframe view, after going to each of the individual factors, we plotted them into a new SWOT framework, to allow us to get a better picture of their current situation.

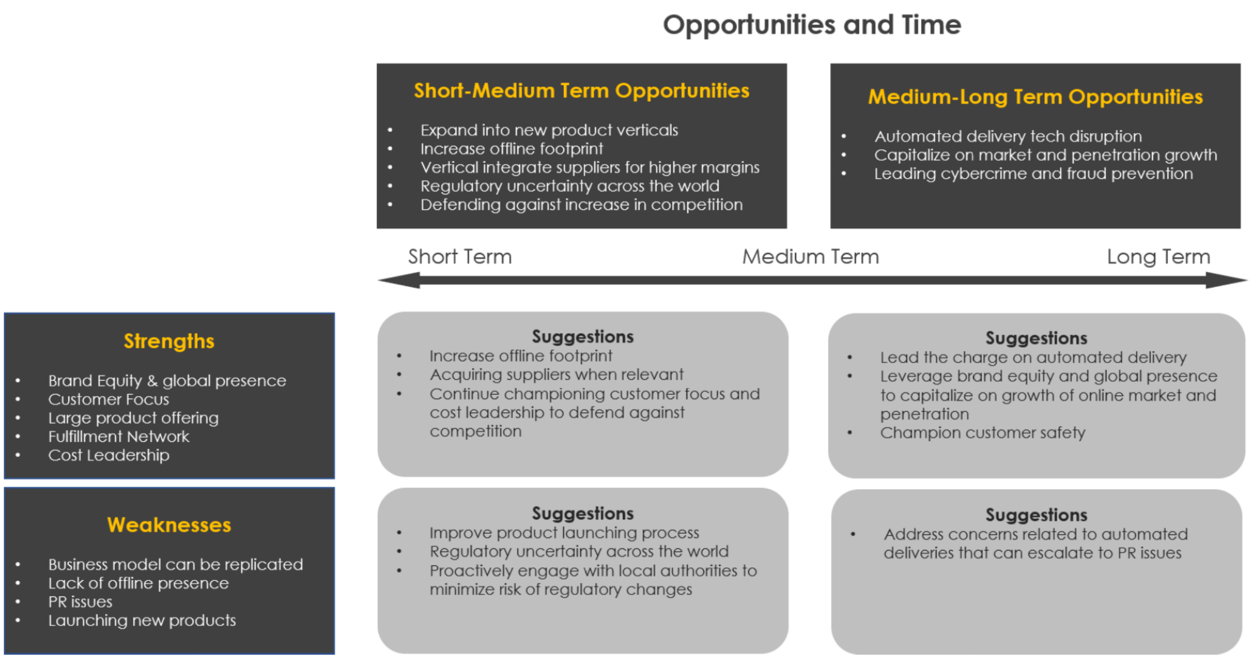


Figure 44 – New SWOT

1. Strengths

Brand equity and **global presence** are two key strengths Amazon possesses compared the competition. As one of the top market cap companies along with Apple and Microsoft, the Amazon brand name immediately projects a seal of quality and expertise in the e-commerce market. Concerning its global footprint, the former garage startup from Seattle is now present all around the world, serving customers via different regional or country specific websites.

Customer focus is another key strength for Amazon. At **the heart of most decisions is the benefit to the consumer**. This started through not generating profits to avoid price hikes, includes their return policy, customer service or One-Click order innovation. This customer-priority has been the guiding light of where the company moves, and has played a key role in it getting it to the place it is in today.

Another strength key of Amazon is their **broad product offering**. It is possible to buy almost anything on the platform, and a customer basket can combine items that in the offline world would require visits to multiple different stores. This convenience factor links to the drivers of online shopping, and enables Amazon to deliver more value to its customers, positioning the company in a prime position to keep winning shoppers.

Amazon's **fulfillment network** is another differentiator. It allows Amazon to deliver faster than most competitors, possibly within one hour in some metropolitan areas depending on the order. Also connected to convenience, it significantly reduces the time consumers wait for products, which is another driver of preference for online shopping. Nowadays it is even possible to take free tours of these facilities.

Although Amazon aims at having lower prices than its competition, it also excels in **cost leadership** across the business. The promise of potential customers compared to a potential downside of a more limited offline presence is balanced by the non-existence of those costs, which puts them in a dominant position in case of a price war against offline or less online based stores. Simultaneously, the economies-of-scale generated by their size and the aforementioned width and breadth of their product ranges also place Amazon at a competitive advantage compared to purely online players that may be hoping their online-only operation will win in minimizing operational costs.

2. Weaknesses

Despite Amazon's success, **its business model can be replicated**. It would require a significant amount of investment to reach its current position, but the fact that there is little proprietary in their day to day activities leaves the door open for another entity with large access to capital to try compete directly.

They have also encountered a few **PR issues**, mostly surrounding **tax avoidance** and **bad workplace conditions** as outlined in the PESTLE analysis.

Although the company is expanding its presence outside of the online world, the current **lack of physical presence** can limit future growth in product categories where people still mainly prefer to buy in person. The Wholefoods acquisition played a role in closing the gap in the grocery space, but its presence is not significant compared to other competitors, such as Walmart, and also because the breadth of categories has not translated.

Launching new products can be considered a weakness, as the results have been hit and miss, not necessarily keeping pace with the company's overall performance. Amazon's Phone launch or Fire TV are two of examples that demonstrate that while being at forefront of e-commerce and innovation around it, their developments are not bulletproof.

3. Threat driven opportunities

Potential **regulatory changes** are a threat to Amazon globally. Just as other large companies such as Uber or Airbnb can attest, this uncontrollable variable is always present and can significantly disrupt the business from one day to the next.

As more transactions move online, the incentive to try to exploit them illegally increases**. Cybercrime** directed at the company or its clients can become an issue in the medium to term view.

Another threat that the growing market upside can generate is the **increase in competition**. Consumption shifting towards online will also provoke a similar investment response from both the mainly offline players such as Walmart, but also from current pure players and new entrants.

4. Opportunities

As Amazon's successes continue to add up in the spaces they already play in, **new verticals** in terms of products are an immediate opportunity that can be seized and can benefit from the current platform. The company has, in recent years, started to play in Real Estate and Pharmacy, while news of them entering the broader Healthcare or Insurance markets keep popping up. This is a growth opportunity as they will be competing for incremental revenue in markets where they can leverage an already existing platform.

As both global **internet and online shopping penetration** grow, Amazon is available to a larger number of potential consumers every day. Seizing this opportunity by outperforming competition in attracting as many new shoppers as possible can increase Amazon's customer base numbers and contribute to a more sustainable future.

Acquiring new physical stores, especially focused on products that under-perform or cannot be sold online in certain jurisdictions, can bring more growth to Amazon in areas where it may have been out of reach.

As Amazon ventures into producing its own products, one opportunity to optimize profit is by **vertically integrating** the companies producing their brands, as it would allow for savings in margins and by allowing the current structure to benefit from Amazon's infrastructure and support.

As a final opportunity, one could consider the ongoing **tech disruption in terms of delivery**. As autonomous cars and drones keep getting tested and pilot experiences are more heavily featured, it would be feasible to imagine fully automated deliveries to the consumer's door in the near future, which would very likely generate savings in costs and in a decrease in delivery times.

Amazon is well positioned to benefit from each of the above opportunities, using its hybrid cost differentiation leadership, its first-mover advantage as an innovation leader, and its clear, uncompromising customer-first approach. With that in mind, however, in order for Amazon's virtuous cycle to continue spinning for the foreseeable future, Amazon's services well need to expand beyond omnichannel expansion or new verticals, taking into consideration not just the wants or needs of a consumer as a purchasing entity, but the concerns they have as members of society, too. While Amazon was and is still a key disruptor in many fields, it risks becoming known as a steamroller rather than a company that goes above and beyond for their consumer.

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