

COMPANY PROFILE

Amazon.com, Inc.

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COMPANY OVERVIEW

Amazon.com, Inc. (Amazon or 'the company') is a retailer that offers its products through online and physical stores. The company offers a range of merchandise, including books, apparel, electronics, home and garden tools, toys and baby games, sports and outdoor products, automotive and industrial products and other general merchandise products. It also provides services that includes web services, order fulfillment, publishing, advertising and co-branded credit cards services. The company manufactures and sells electronic devices, including Kindle e-readers, Fire tablets, Fire televisions (TVs) and Echo. Amazon markets its products through its website, www.amazon.com. Amazon also operates through various international websites. It has business presence across North America, Europe and Asia-Pacific. The company is headquartered in Seattle, Washington, the US.

The company reported revenues of (US Dollars) US\$232,887 million for the fiscal year ended December 2018 (FY2018), an increase of 30.9% over FY2017. In FY2018, the company's operating margin was 5.3%, compared to an operating margin of 2.3% in FY2017. In FY2018, the company recorded a net margin of 4.3%, compared to a net margin of 1.7% in FY2017.

The company reported revenues of US\$59,700.0 million for the first quarter ended March 2019, a decrease of 17.5% over the previous quarter.

KEY FACTS

Head Office	Amazon.com, Inc. 410 Terry Avenue North Seattle Washington Seattle Washington USA
Phone	1 206 2661000
Fax	
Web Address	www.amazon.com
Revenue / turnover (USD Mn)	232,887.0
Financial Year End	December
Employees	647,500
NASDAQ Ticker	AMZN

SWOT ANALYSIS

Amazon.com, Inc. (Amazon or 'the company') is a web service provider and online retailer. Strong financial performance, wide customer base and strong distribution channel network are the company's major strengths, whereas patent infringement issues and overdependence on US remain causes for concern. Increase in demand for cloud computing services, positive outlook for online retail sales in US, and strategic agreements and acquisitions are likely to offer growth opportunities to the company. However, competitive environment, stringent regulations and seasonality changes could affect its business operations.

Strength Strong financial performance Strong distribution channel network Wide customer base	Weakness Overdependence on US Patent infringement issues affect stakeholder confidence
Opportunity Increase in demand for cloud computing services Positive outlook for online retail sales in US Strategic agreements and acquisitions	Threat Competitive environment Stringent regulations could increase the cost of doing business Seasonality changes could affect the company's business operations

Strength

Strong financial performance

Amazon reported revenue of US\$232,887 million in FY2018, as compared to US\$177.866 million in FY2017, an annual growth of 30.9%. The growth in revenue was primarily due to the strong performance from its North America, international and AWS segments. The North America segment reported 33.2% growth in revenue, which was driven by the acquisition of Whole Foods Market, and increased unit sales, including sales by third-party sellers. Its international segment reported 21.3% growth in revenue, which was driven by the increased unit sales, including sales by third-party sellers. The AWS segment recorded 46.9% growth in revenue, which was due to increased customer usage. In FY2018, the company's operating margin was 5.3% as compared to 2.3% in FY2017. Improving operating performance indicates the company's focus towards efficient cost management. Amazon's operating cost as a percentage of sales declined from 97.7% in FY2017 to 94.7% in FY2018. Similarly, the company's net profit margin grew from 1.7% in FY2017 to 4.3% in FY2018. Amazon's return on equity grew from 10.9% in FY2017 to 23.1% in FY2018. Strong financial performance increases the company's ability to provide higher returns to its shareholders and also increases its ability to allocate adequate funds for future growth initiatives.

Strong distribution channel network

Amazon has a strong distribution channel network that serves large number of customer. The company offers apparels and accessories, home appliances, foods and grocery items, health and beauty products, automotive and industrial equipment, toys, electronics and gardening equipments through its physical stores and e-commerce site, amazon.com. It primarily markets the electronics and media content to its centers operating in North America and other International markets and through agreements in certain countries. Amazon fulfills customer orders through its fulfillment centers and delivery networks that it operates in North America and other foreign countries; co-sourced and outsourced arrangements in certain countries; and digital delivery. It also allows various sellers and other third parties to offer their products through its e-commerce portal. Users can avail these services through mobile applications. A strong distribution channel network helps the group in catering to the needs of its customer base.

Wide customer base

Amazon s has a diversified customer base. The company serves four primary customer sets: consumers, sellers, developers and enterprises, and content creators. The company serves consumers through its physical and online stores. Amazon serves sellers by offering programs that enable them to sell their products on their websites and also on Amazon's websites. The company serves developers and enterprises through AWS, which provides a broad set of global compute, storage, database, and other service offerings. Amazon serves content creators such as authors and independent publishers through Kindle Direct Publishing, an online platform that allows independent authors and publishers to select a royalty option and make their books available in the Kindle Store. The company's diversified customer base limits the company's exposure to the risks associated with the dependence on a particular customer segment.

Weakness

Overdependence on US

Although Amazon has its global presence, it depends on the US for majority of its revenue. In FY2018, the company generated 68.8% of the revenue from the US. Such geographic concentration increases the risk that, should any adverse economic, regulatory, environmental or other developments occur in the US, the company's business and financial condition will be materially adversely affected. Any changes in the political or cultural factors that occur due to significant geographical concentration of its operations in only one region could affect the company's business operations.

Patent infringement issues affect stakeholder confidence

The company is involved in various patent infringement cases. In November 2018, Dynamic Data Technologies, LLC filed a patent infringement case against the company, Amazon Digital Services, LLC and Amazon Web Services, Inc., in the US District Court. The plaintiff alleged that products and services with H.265 functionality infringed U.S. Patent Nos. 8,135,073; 6,774,918; 7,571,450, 8,073,054; 6,996,177; 8,311,112; and 7,894,529. The complaint also alleges that products and services with VP9 encoding functionality infringed U.S. Patent No. 7,519,230 and products and services with for encoding video data, infringed U.S. Patent No. 8,184,689. The complaint seeks an unspecified amount of

damages, attorneys' fees, interest, and enhanced damages. Patent infringement cases could affect Amazon's brand image.

Opportunity

Increase in demand for cloud computing services

Cloud-based operations enable Amazon to expand its operations instantly, handle demand fluctuations, and also access systems and services over a variety of devices at a lower cost. According to in-house research, the global cloud computing market is expected to grow at a CAGR of 28.3% to reach US\$69,929.6 million by 2022 from US\$18,687.2 million in 2017. During the forecast period, Software-as-a-Service (SaaS) is expected to be the major contributor with market share of 53.2%, followed by Infrastructure-as-a-Service (IaaS) with 24.3%, and Platform-as-a-Service with 22.5%. The US is expected to account for 58.3% market share, followed by Europe (19.6%), Asia-Pacific (12.8%), Rest of the World (9.2%), and the Middle East (0.2%) during 2017-2022. Amazon has been expanding its web services business significantly. Thus, the company could benefit from the increasing demand for cloud computing services to expand its business further.

Positive outlook for online retail sales in US

Amazon could benefit from growing online retailing, which provides the convenience of shopping from home to consumers. With the increase in limitless content and interactive methods, the retail e-commerce is growing at a faster rate. According to an in-house research, the online retail market in the US is forecast to grow at a CAGR of 8.5% during 2017-22 to reach US\$447.4 billion by 2022 from US\$297.8 billion in 2017. The use of smart phones, tablets and other internet enabled devices contributed to growing E-commerce market. The online retail sector's growth will continue to be strong during the forecast period, largely driven by supply; the largest multichannel retailers will focus on increasing their proportion of online sales, while Amazon, as the leading online retailer, will continue to heavily expand its operations.

Strategic agreements and acquisitions

Amazon intends to strengthen its position through acquisition. In February 2019, the company signed a merger agreement with eero, a provider of WiFi solution, under which Amazon will acquire eero. The acquisition would enable the company to help customers better connect smart home devices. In September 2018, the company acquired PillPack, Inc., an online pharmacy company. The acquisition would expand and strengthen the company's online business. In April 2018, the company acquired Ring Inc, a global home security company to reduce crime neighborhoods. As a result of the acquisition, Amazon would work with Ring to create products and services that gives more security communities to neighbors. Such strategic acquisitions are likely to help the company strengthen its business; thus helping it to compete with its peers and also help it to increase its future revenue.

Threat

Competitive environment

Amazon operates in a highly competitive market. The company faces competition from different sectors around the world. The main competitive factors in its retail business include selection, price, and convenience, including fast and reliable fulfillment. The competitive factors for its seller and enterprise services include the quality, speed, and reliability of the company's services and tools, as well as customers' ability and willingness to change business practices. The company's major competitors include online, offline, and multichannel retailers, publishers, vendors, distributors, manufacturers, and producers such as eBay, Best Buy, Dollar Tree, Wal-Mart, Sears, and Target. Some of its major competitors have greater resources, strong heritage and customer base, greater brand recognition, and greater control over inputs important to its various businesses. These competitors can gain better terms from suppliers, adopt more aggressive pricing, pursue restrictive distribution agreements that restrict its access to supply, direct consumers to their own offerings, lock-in potential customers with restrictive terms, and spend more resources to technology, infrastructure, fulfillment, and marketing. Therefore, increased competition could affect the revenue growth and profitability of Amazon.

Stringent regulations could increase the cost of doing business

Increasing intervention of the US Government could affect future prospects of the company. The company is subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet, e-commerce, electronic devices, and other services. Any existing and future law related to taxation, data protection, privacy, pricing, content, distribution, copyrights, transportation, electronic device certification, mobile communications, electronic waste, energy consumption, electronic contracts, environmental regulation and other communications, competition, consumer protection, employment, trade and protectionist measures, web services, the provision of online payment services, information reporting requirements could impact the growth of company. Unfavorable regulations and laws could diminish company's demand for its products and services and increase its cost of doing business.

Seasonality changes could affect the company's business operations

Changes in seasonality could affect Amazon's business operations. For reducing risk, the company stocks or restocks popular products in sufficient amounts to meet the customer demand. Seasonality changes could affect the financial and future growth of the company. Overstocking products is required to take inventory make down and incur commitment cost that could reduce profitability. The company may experience an increase in net shipping cost due to complimentary upgrades, split-shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. In the event, if large number of customers access the company's site within a short period of time, due to increased demand, the company may experience system interruptions that make its websites unavailable or prevent it from efficiently fulfilling orders. The interruption could reduce the volume of goods that the company sells and the demand for its products and services. Also, the company would not be able to adequately staff its fulfillment network and customer service centers during these peak periods.

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