

PROJECT- AMAZON

COURSE- SOM 101

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Business strategy of Amazon

- Amazon was founded in 1994 by Jeff Bezos based in Seattle. Amazon was first launched as an online bookstore but the business model was so appreciated that gradually it moved on to become the world's largest e-commerce store with a huge variety of products. It deals in books, music, films, household products, furniture, digital products, gadgets, garments and what not. Amazon has another business unit that deals with Amazon's digital service like Cloud and AWS etc.
- The Amazon Business Model is simple. They provide a platform where sellers can sell their products, and then take a percentage of the sales from their own marketplace. With this model, it gives them an edge over their competitors as they are able to undercut prices on other retailers. It doesn't have to compete with physical stores because it's in the cloud and not limited to one location.
- In order to do so, they use a 3-pronged strategy that includes: increasing market share, increasing customer usage rates, and increasing their prices over time. These three strategies are a lot more effective than other competitors because they take into account data from multiple industries that can help them build products and services with the best potential to succeed in those industries.
- The company has a revenue stream coming from four different sources:
 - **Amazon Prime membership revenue.**
 - **Amazon Web Services (AWS) or Cloud Computing services revenue.**
 - **Advertising revenue.**
 - **Merchandising income.**
- Amazon has one of the largest profit margins in retail with an average of 45% (source: Forbes). However, they are the first company that doesn't need to make money on each item sold. The fact that Amazon is growing at a rapid pace despite losing money on some merchandise, shows how attractive its business model is for retailers and brands alike.
- Therefore, Amazon's strategy is to make low investment products more popular with innovative marketing campaigns.

- Amazon, the world's most prominent retailer, is a leading example of the "Trusted Advisor" strategy. This strategy is all about providing value through products and services that cannot be found elsewhere. In order to achieve this, Amazon has to provide a wide range of services and products that people want and need. This includes their main e-commerce site, their music player app, their voice assistant Alexa and so on.
- The "Trusted Advisor" (TA) strategy is a simple but powerful strategy. It consists of three pillars: the advisor, the TA product, and the advisor marketplace. The TA has a trusted position in the marketplace to help with problems or give advice. The advice is then delivered by any TA product in an efficient manner. Amazon has proven this theory through its success with its Amazon Prime subscription service and its cloud computing offering (AWS). The company believes that by utilizing technology, they can be more efficient at delivering personalized customer service.
- **The "Consumer Light" Strategy:** Amazon is leveraging their expertise in convenience to the fullest. Amazon's "Consumer Light" strategy revolves around three key features: **convenience**, **simplicity** and **personalized recommendations**. They want customers to feel that they are having a quality experience while they shop. Which is something that is increasingly difficult when shopping online.
- This strategy works by making use of technology, data, and analytics to provide innovative solutions for customer needs. For example, Amazon Echo is an AI assistant that allows people to order products without having to click any buttons or type in any text.
- **Amazon's Competitive Advantage** - Product Search Engine
- **Amazon's Secret Ingredient** - Data Collection
- Source: <https://elr12.com/the-grand-theory-of-amazon-story-of-a-successful-business/#:~:text=The%20Amazon%20Business%20Model%20is,undercut%20prices%20on%20other%20retailers>.

BUSINESS MODEL CANVAS

Key Partners

- Sellers
- authors
- Publishers
- logistic

Key Activities

- Merchandising
- Development, design, and optimization
- Manage supply chain and logistics
- Secure and build partnership

Key Resources

- fulfillment centers
- technological infrastructure
- Online platform

Value Propositions

- Competitive pricing
- Selection of goods
- Convenience
- Fast Delivery

Customer Relationships

- Reviews and comments
- Customer service
 - phone
 - online chat
 - email

Channels

- Amazon's website & Apps
- Affiliate Program

Customer Segments

- anyone with internet connection
- Somebody who is looking for convenience of ecommerce and Fast delivery

Cost Structure

- Driven by Technology
- Operation of Fulfillment centers
- customer service centers
- software development

Revenue Streams

- Amazon Prime subscription fees
- Commission
- Transaction Fees

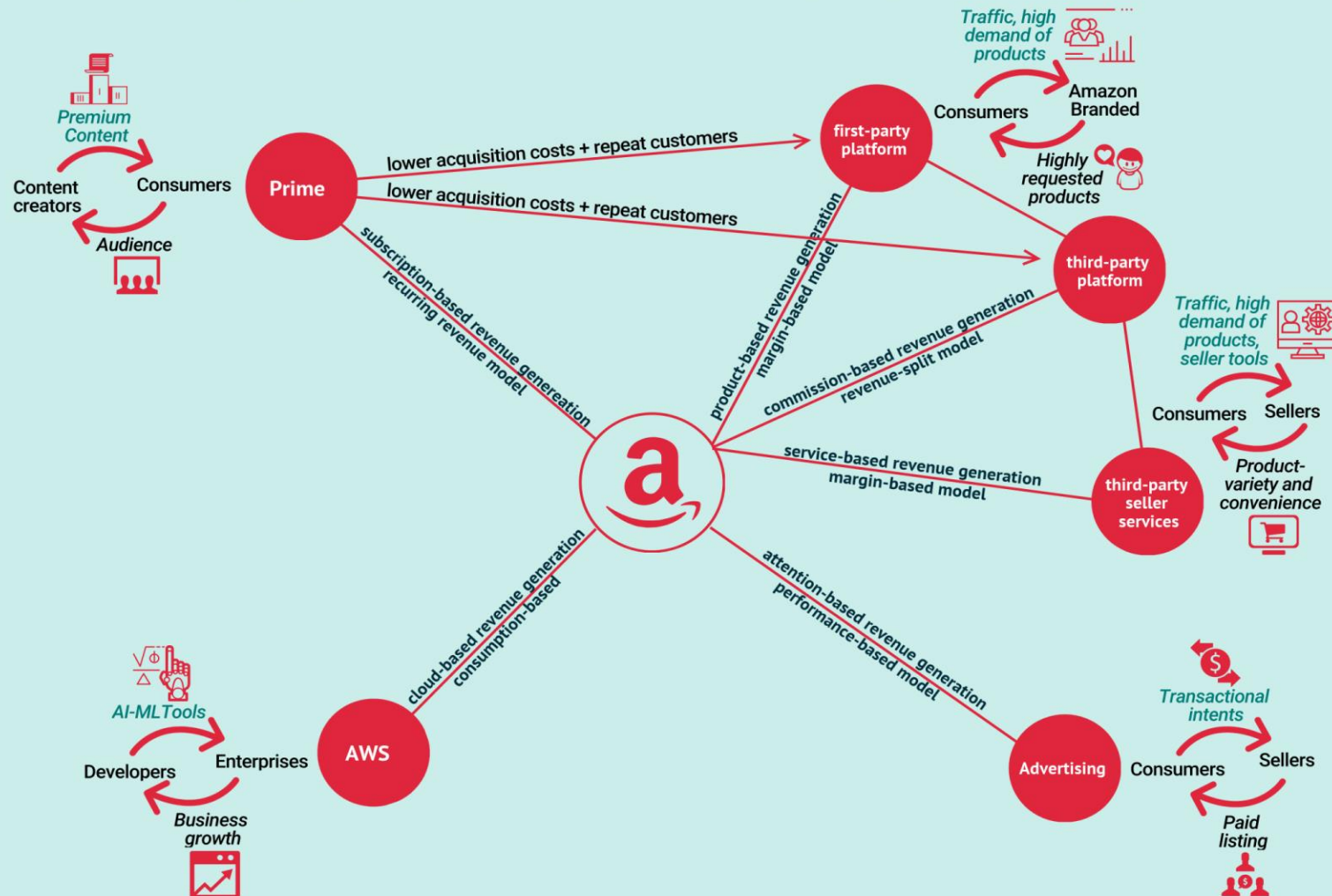


Revenue Model

- Amazon has a diverse revenue model.
- The primary source of revenue for Amazon is the commissions and fees that it obtains by making the borrowers and sellers meet. Amazon doesn't sell a lot of stuff on its own. It just provides a marketplace guaranteeing a standardized experience for both the buyers as well as the sellers.
- Amazon also derives a huge chunk of its revenues from affiliate programs. Amazon provides affiliates with stores within their sites. It then charges a larger commission on their sales.
- Amazon also sells advertising space on its website. The Amazon site is one of the most visited pages in any region. Hence, sellers can expect to boost sales by advertising on it. This is a miniscule portion of the revenue that is generated by this company but is nonetheless significant.
- Amazon also makes a huge chunk of money from the Kindle marketplace. Amazon has developed and sold a device called Kindle. It can be used to read books in the electronic format. Thanks to this device, Amazon has a 75% market share in the eBook market. Also, this market is highly profitable for Amazon. Books sold by this model do not have to be published or transported. Amazon, therefore, pockets the share of the publisher as well as the logistics firm. Amazon gets close to 70% of the revenue generated by selling eBooks on Kindle.
- Lastly, Amazon has also developed subscription based business models via its Amazon Prime service. For a fixed subscription users get two benefits. Firstly, users can stream movies and other video content via the internet. Secondly, Amazon Prime members are entitled to lightning fast delivery of the products purchased from Amazon.
- The revenue model of Amazon is therefore dynamic. It has been repeatedly venturing into newer areas. Also, technology is the backbone of these newer sources of revenue which many retailers had not thought about earlier.
- Source: <https://www.managementstudyguide.com/business-model-of-amazon.htm>

Amazon Business Model Map

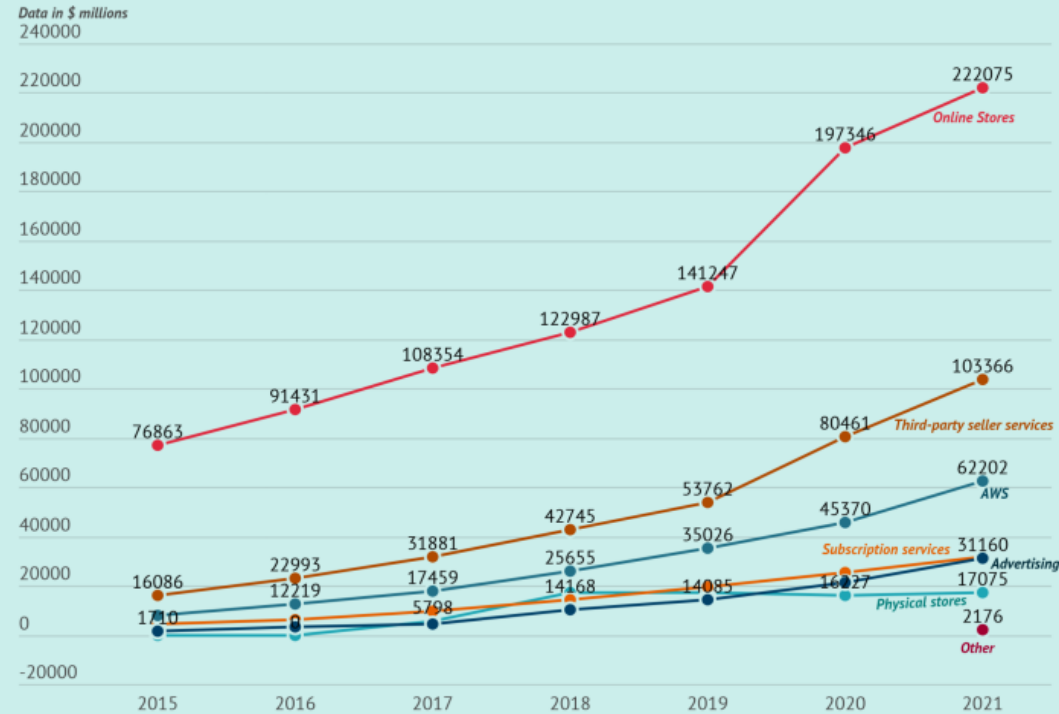
Amazon runs a platform business model as a core model with several business units within. Some units, like Prime and the Advertising business, are highly tied to the e-commerce platform. For instance, Prime helps Amazon reward repeat customers, thus enhancing its platform business. Other units, like AWS, helped improve Amazon's tech infrastructure.



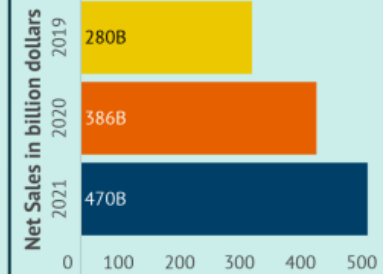
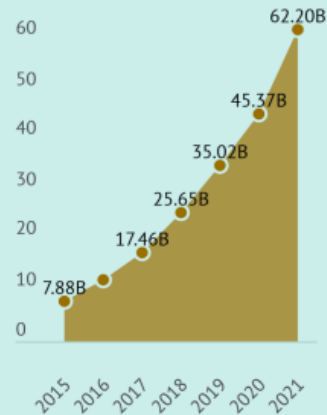
Amazon Business Model Analysis

Started in 1994 as a bookstore, Amazon soon expanded and became the everything store. While the company core business model is based on its online store. Amazon launched its physical stores, which generated already over five billion dollars in revenues in 2017. Amazon Prime (a subscription service) also plays a crucial role in Amazon overall business model, as it makes customers spend more and being more loyal to the platform. Besides, the company also has its cloud infrastructure called AWS, which is a world leader and a business with high margins. Amazon also has an advertising business worth a few billion dollars. Thus, Amazon business model mix looks like many companies in one. Amazon measures its success via a customer experience obsession, lowering prices, stable tech infrastructure, and free cash flow generation.

Amazon Revenue Streams



AWS Sales Growth in Billions



Business statistics

- Amazon has a diversified business model. In 2021 Amazon posted over \$469 billion in revenues and over \$33 billion in net profits. Online stores contributed to over 47% of Amazon revenues, Third-party Seller Services, Amazon AWS, Subscription Services, Advertising revenues, and Physical Stores.
- Amazon generated \$470 billion revenue in 2021, making it the third largest company in the world by revenue
- Amazon Web Services was responsible for 13% of that revenue
- Amazon earned \$33.3 billion net income in 2021, around half of which came from AWS
- Over 200 million customers subscribe to Amazon Prime worldwide, with 147 million in the US alone
- Amazon Prime Video had 175 million users in 2021, while Prime Music reached 68 million in 2021
- In 2020, more than 200,000 new third-party sellers from around the world began selling on Amazon, a 45% increase from 2019.
- In the U.S., Storefronts has grown to feature over 2.5 million products from roughly 30,000 businesses across various product categories.
- Nearly 2 million small- and medium-sized businesses are Amazon third-party selling partners.
- In 2020, Amazon hired 500,000 employees and now directly employs 1.3 million people around the world.
- Amazon created 400,000 new jobs in communities around the U.S. in 2020 and invested \$34 billion in American infrastructure.
- In the 12 months ending on May 31, 2020, American SMB sellers each had an average of over \$160,000 in sales, up from approximately \$100,000 a year earlier. The number of U.S. SMB sellers that surpassed \$1 million in sales grew by more than 20% in the same period.

Corporate-Level Strategy

- As for the corporate-level strategy, Amazon, it could be said that Amazon uses a multi-level sales strategy. The approach implies that sales can be made on several levels (Wit & Meyer, 2010). In the case of Amazon, as Amazon was focused on Business-to-Consumer and Business-to-Business markets. However, today it is a platform where the sellers can have their relationships with their customers (*AmazonServices*, 2015).
- There are also other strategies used by Amazon, but it has to be mentioned that this strategy is the main one. This approach allows Amazon to remain competitive on the market continuously. It attracts additional sellers to the website and dramatically increases the diversity of products. Moreover, it is beneficial to both sellers and Amazon, as both parties can gain profit. Additionally, this fact attracts more customers to the company, as a products' variety significantly increases.
- Source: <https://essaybizlab.com/amazon-company-strategies-business-and-corporate-levels/>

Amazon BCG Matrix

The BCG matrix of Amazon com helps us understand the current position of different products and services in the Amazon business model and we can also see the business level strategies for its business units. A BCG matrix is categorized into four types of products based on the market share and growth potential. These four types are dogs, stars, cash cows and question marks.



SWOT ANALYSIS OF amazon

S



Strength

- | Brand
- | Customer orientation
- | Innovation
- | Cost
- | Large selection
- | Partners
- | Logistics

W



Weakness

- | Imitable business model
- | Flops and failures
- | Workplace conditions
- | Dependence on distributors

O



Opportunities

- | Expansion
- | Physical stores
- | Acquisitions

T



Threats

- | Regulations
- | Exploitative labor
- | Cybercrime
- | Competition
- | Recession
- | Fake reviews



ORGANIZATION DESIGN:

