

Competitive Strategy Assignment
601-Information Systems
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Topic: Amazon Sponsored Products - 3rd Largest Digital Advertisement Platform.

Megan Graham, (Jul 17, 2019). Amazon is turning advertising into its next huge business. CNBC.com Retrieved on Sept 27, 2019 from
<https://www.cnbc.com/2019/07/17/how-amazon-advertising-works.html>

Summary of the Article:

After Google and Facebook, Amazon the giant e-commerce company is the 3rd largest digital advertisement platform. Amazon lets the sellers on the platform to reach customers through sponsored products advertisement also known as 'Amazon Advertising'. Amazon stores the information about the browsing and buying habits of customer which makes great value for the advertisers on amazon platform. When you search product on amazon, you would notice products with label 'sponsored' below product description, these are sponsored products. Sellers bid on products and the products with highest bid are displayed first on customers amazon search page. Sellers pay when their ads are clicked, also known as PPC (Pay per Click). Sponsored Products help the sellers to boost their product visibility and sales on amazon.

The valuable collection of data has made amazon 3rd largest digital advertisement platform and is rapidly growing to take on Google and Facebook. In 2019, amazon is expected to claim 8.8 percent of United States digital advertisement spend from 6.8 percent in 2018 and could reach 10 percent by next year according to study, while expecting Google to drop 38.2% to 37.2%. Also, Facebook is expected to increase the advertisement spend from 21.8% to 22.1% in 2019. Amazon advertising segment is growing rapidly, which offers highest revenue to company apart from its cloud business and e-commerce.

The main goal of amazon advertisement is to help the sellers to increase their sales, but many advertisers find amazon's advertising business complicated and hard to understand for people outside the organization.

Amazon Advertisement General Business Environment from The Perspective of Each of The Five Components of Porter's Competitive Forces Model.

The five components of porter's competitive forces model help to determine the competitive strength of the organization and the business situation.

1. The Threat of Substitute Product or Services:

The threats of substitution of Amazon Advertising would be a platform which allows their sellers to advertise their product on amazon and other social media with reduced cost and better result in terms of product visibility and sales conversion. Google allows the advertisers to advertise their products and target customers based on keywords. As per the

study, 80% of advertisers choose Google and Facebook as these platforms have huge customer database and allows advertisers to target new customers. Amazon advertisement lacks to target new customer and have less customer database in comparison to Facebook and Google. For amazon to compete with google ads and Facebook ads, amazon should optimize the platform to allow the advertisers to target new customers and this is only the way to increase the customer database on amazon platform.

2. Bargaining Power of Customers:

The main goal of advertisement is to increase the product visibility and high sales conversion. Amazon is giving free amazon credits to attract the advertisers to use amazon advertisement platform. Amazon is also hosting free webinar for the advertisers for the better understanding about the advertisement platform. On the other hand, google advertisement is expensive to use and complicated to track the sales conversion count. Amazon has developed advertising dashboard for the advertiser to track the sales count, clicks and advertisement cost also known as Acos (Advertisement cost to sales).

3. Bargaining Power of Suppliers:

Amazon Advertising platform is owned and managed by Amazon itself. Amazon allows even small business to use the platform to sell the product and use its services like advertisement. Amazon has various services and products thus there is huge amount of supplies. As all the services are managed by Amazon and AWS the cost of supplies is less.

4. Competitive Rivalry:

The level of rivalry in the ecommerce advertisement industry is high because the leading players like google in the advertisement market. Google and Facebook are main competitors of digital advertisement. It is not just about google and Facebook but also advertisement platforms like Instagram are also looking for market share and building competition. Many other companies are also looking to enter advertising platform; thus, the level of competition will be continuing to increase for Amazon Advertising Platform.

5. Threat of New Entrants:

Amazon being 3rd largest advertisement platform after Google and Facebook, the threat for amazon advertising is likely very low. Many new companies have entered advertising as it's easy to build advertising model with the technology advancement, but the growth and brand value of amazon advertising has almost no threat from new entry. It requires lot of investment to build a name and brand in market like Amazon for any new entry company in the advertising market.

Porter's Value Chain Analysis

A value chain is a series of activities or operations that a specific company performs in order to deliver the valuable product for the customers. It includes operations from the start of manufacturing of the product till its final delivery to the market. The 5 primary activities according to Porter's value chain is the principle of any organization and these also provides sustainability in the market.

1. **Inbound Logistics:** It refers to all the incoming raw materials, its storage and use for manufacturing whenever required. Amazon do not have long term agreements with any third-party vendors. Earlier, the sellers on the amazon used different advertising platform like google to advertise their products. Understanding the need for advertisement for sellers who use to sell their products on Amazon, it created its own advertising platform using AWS inhouse technology. Amazon Advertising is optional choice for the sellers on amazon, but the sellers who use the advertising platform tend to increase their sales very rapidly.
2. **Operations:** Operations includes the activities performed by the organization to make the final product for the use of customers. For Amazon Advertising, operations include the regular updates on the products, new features and testing of the product for better efficiency. Different training modules and support teams are required to help the sellers to use the platform.
3. **Outbound Logistics:** It refers to the final product which goes into the market for the customer use. Amazon targets the sellers who use amazon platform to sell their products. Amazon being the largest ecommerce company has millions of sellers registered throughout the world to sell the products online. Out these millions of sellers only 25% of sellers get very good business form amazon, thus amazon targets rest 75% of sellers to use the Amazon advertising which help the sellers to boost their sales and increase the product visibility.
4. **Marketing and Sales:** It refers to the promotions and steps taken by company to increase their own product sales. Amazon is investing huge in its advertising platform as it is growing rapidly in the digital world. Amazon is giving free amazon credits for initial 3 months for the sellers to use the advertising platforms, which is one of great steps taken by amazon to attract the sellers to use advertising platform. Additionally, Amazon sends mailers and pop-up notification to all the sellers to registered with amazon. Amazon also is educating the sellers about the different services offered in the seminars and sellers connect event. Seller connect is an event organized by amazon in particular region where all the sellers are invited.
5. **Services:** It refers to the support given to the customers or vendors for the effective and efficient use of the product after the purchase, also it maintains healthy relationship between buyer and consumer. Amazon is customer centric platform and the company offers great customer experience and services. The core value of amazon is Customer Obsession states that any change in the organization or product updates are done keeping in mind how it will affect the customer. If there is any issue faced by the customer using amazon services which require support assistant over call, amazon allows the sellers to get connected with customer service team any time. The issues are resolved quickly and efficiently. As per the study, Amazon is ranked at first position in customer satisfaction index 2018.

Impact in Digital Advertising Platform:

Amazon advertising is cost per click advertising platform that allows the sellers to promote their products with advertisement that appear in highly visible top search pages on amazon. Amazon has introduced new advertising features known as Sponsored Banner which allows the sellers to create a banner in amazon top search pages. Banner advertisement lets the seller to make a brand name in the ecommerce industry and provides full control to the seller to manage its advertisement. Google and Facebook are still behind as it does not allow the users to manage the advertisement once the advertisement is created. Amazon advertisement is cheaper in comparison to google advertisement as amazon charges the seller only when some one clicks on the advertisement. Also, Amazon advertisement is result oriented as it provides the data to the seller with the number of sales through advertisement and many other metrics. Due to these unique feature's amazon advertisement growing rapidly. Amazon also analyses the analytics report of other advertisement platform and optimize its own services to be competitive. Amazon Advertisement is user friendly which allows sellers having less technical knowledge also can use the analytics tool for better decision making. With the new features and the advancement in technology amazon advertising is making great impact in the market.

Recommendations:

Amazon Advertising platform has gained the popularity among the online sellers due to unique features which allows the sellers to manage their advertisement with great ease and effectively. Amazon is still trying different strategy to increase the users for amazon advertisement and is investing a huge amount in customer acquisition by giving the sellers free credits. Amazon advertisement is used by only 18 percent of sellers in comparison to google. Google is still the leader in advertisement market and amazon is way behind to compete with google.

Amazon Advertisement needs to focus on targeted sellers to create awareness mainly on new launched sellers on amazon. Amazon provides priority assistant to only big brands and same should be provided to small and new sellers as well. Small and new sellers can be a big market for amazon advertisement platform. As per study, 35 percent of sellers reported that understanding amazon advertising platform is not simple. Thus, amazon should optimize the product to be more user friendly.

Conclusion:

Amazon advertising is 3rd largest advertising platform after Google and Facebook and is rapidly gaining popularity in the market. In very short span of time amazon advertising has doubled its revenue from 2017 to 2018. Unique features of amazon advertising allow the sellers to manage the advertainment effectively. Amazon is investing huge to sustain and grow rapidly in the market. It's a great opportunity for amazon advertising to give a close fight in next 3 years to google and Facebook.

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