

BUSINESS ANALYSIS OF amazon

BY ROBERT FERRARA

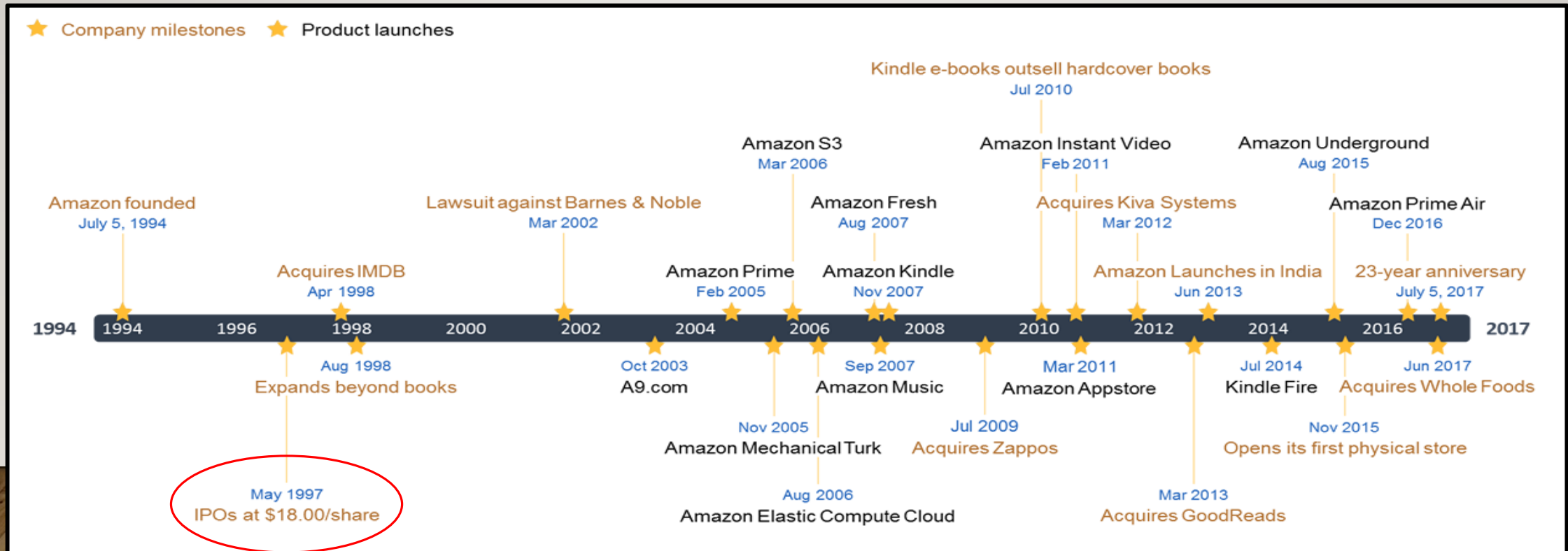
ECON 160 – Microeconomics, Submission Date: 12/5/19, Ricky Zhu – B09, B00736314



INTRODUCTION

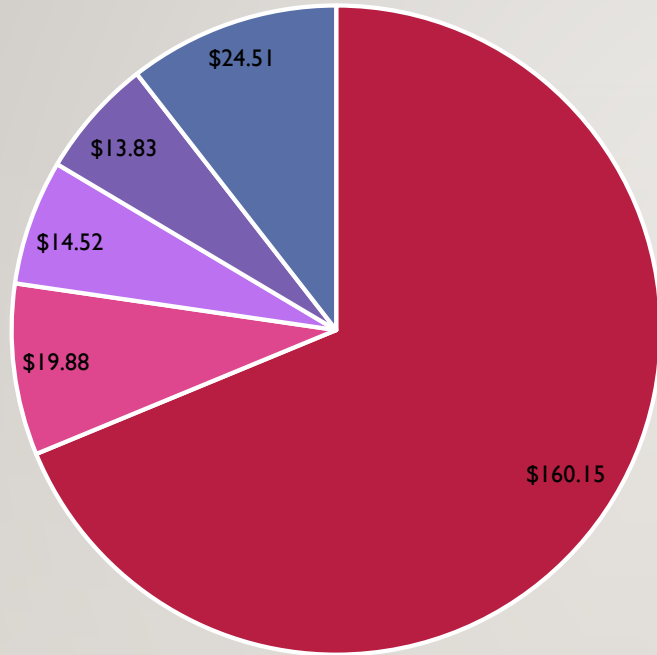


- Founded on July 5, 1994 in Bellevue, Washington by Jeff Bezos.
- Amazon's management:
 - CEO: Jeff Bezos
 - CFO: Brian Olsavsky
 - CTO: Werner Vogels
- Key products are: **Amazon Marketplace** or Amazon.com, Amazon Prime, Amazon Alexa, Amazon Appstore, Amazon Books, Amazon Fire Tablet, Amazon Fire TV
- Headquarters: Seattle, Washington



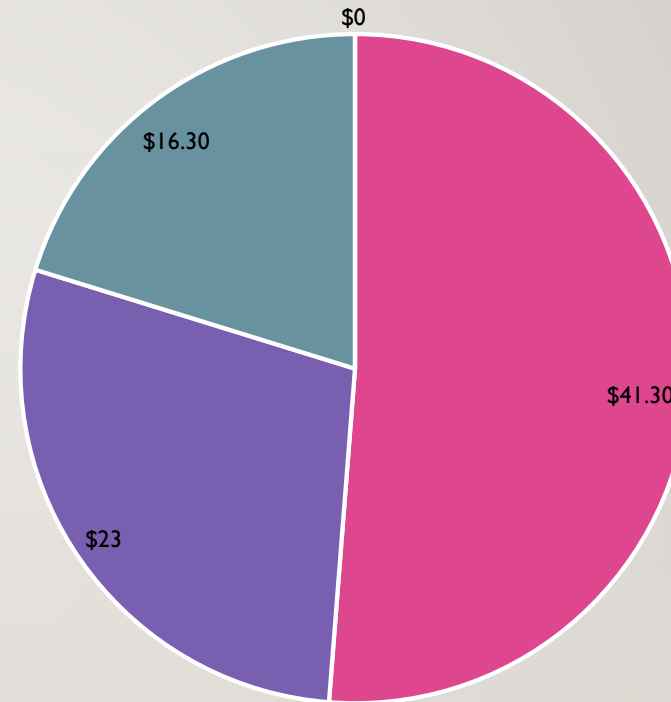
FINANCIAL ANALYSIS

Annual Net Sales 2014-2018
(in Billions of \$)



■ U.S. ■ Germany ■ United Kingdom ■ Japan ■ Rest of World

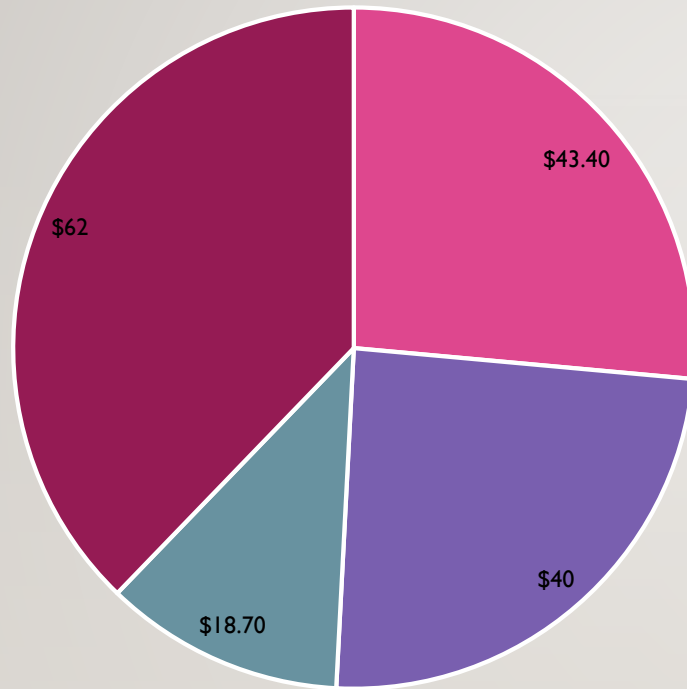
Expenses Composition 2019
(in Billions of \$)



■ Cost of Goods ■ R&D ■ SG&A ■ Federal Tax

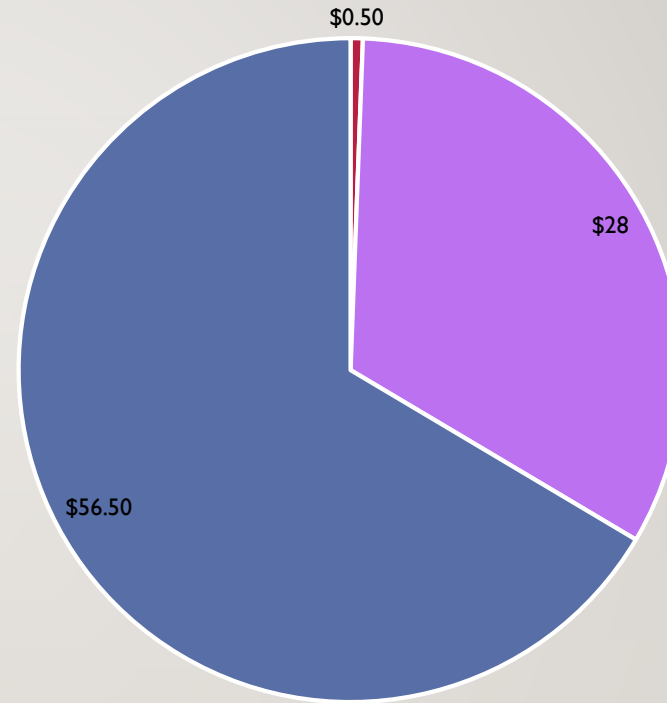
FINANCIAL ANALYSIS continued...

Asset Composition 2019
(in Billions of \$)



■ Cash ■ Securities ■ Inventory ■ Tangible Properties

Owner's Equity 2019
(in Billions of \$)



■ Stock Shares ■ Retained Earnings ■ Total Owner's Equity

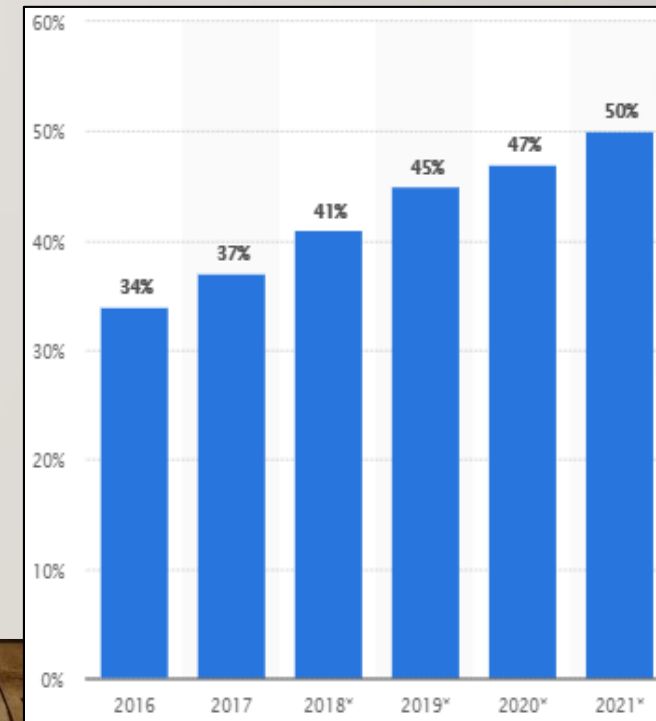
FINANCIAL ANALYSIS continued...

- Direct Costs from Income Statement in 2019FY: **\$66.824B**, specifically operating costs.
- Capital Costs from Cash Flow Statement in 2019FY: **\$15.28BB**
- Two Most Important Assets: Amazon Marketplace
“amazon.com”(intangible)
AND Digital Ad Service (intangible)
- The company's most important source of financing, is **debt**.
- Price to Book ratio is **15.53**



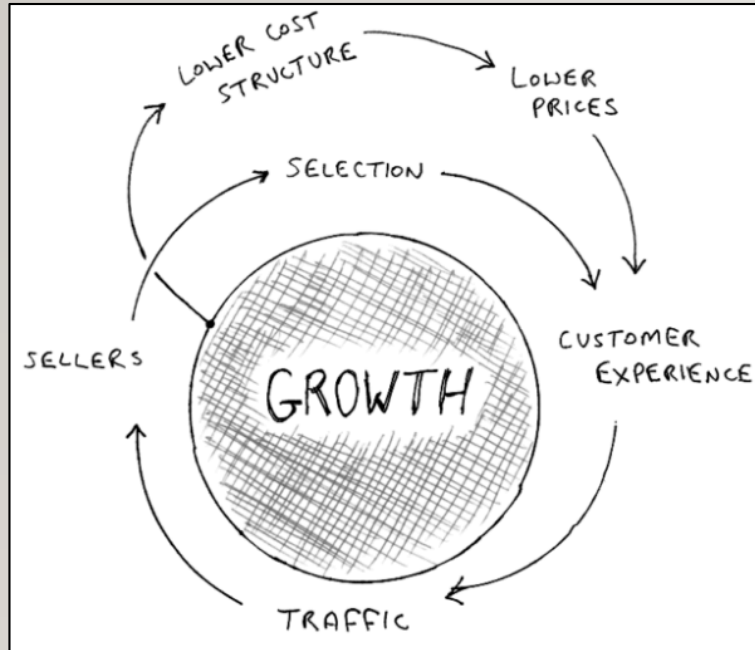
MARKET STRUCTURE

- Amazon belongs to an Oligopoly market structure due to the barriers the company must overcome to assert market dominance. Amazon may seem like an overpowering company; however, they are a middle-man and make significantly less money if the customer were to buy the products sold on their website directly.
- Competitors: Google, Apple, Best Buy, Walmart, eBay, Target, Oracle.
- Market Power: Controls a \$600 billion market that is continuously growing at a rate three times as swiftly as overall retail spending. Another factor that attributes to Amazon's growth is through the advertising and the percentage of money made through sales on its website.
- Market Share: 50% of entire e-commerce retail market's gross merchandise volume (GMV)
- Barriers of Entry of E-Commerce Company: Setting up a website is easy but, developing a massive website such as Amazon requires you to have returning costumers. Once a website can achieve this, then they can develop as a business. This is in theory, as there are no known barriers with e-commerce.



MARKET STRUCTURE continued...

- Key Business Model: (From Jeff Bezos)



- Additional Information about Business Model: Focus on the customers and find something they might be interested in. Once they find defining trends, embrace them, once again driving the key idea of focusing on the customers' needs. The ability to adapt quickly and make decisions based on these trends allows Amazon to thrive.
- What makes Amazon Unique: Amazon is different from its competitors because of its convenience for its users on its website, but more importantly its ability to anticipate what its users want. With already millions of customers, spotting potential trends becomes easier and easier.
- Why Amazon faces government regulations: The company faces such government regulation because of its rapid growth and the power it has over the various markets it participates in. Due to its growth comes power, and the U.S. government is curious to know what Amazon does with such power. As mentioned above, with millions upon millions of user data, some government members believe it give Amazon an unfair advantage. In the worst cases, Amazon cannot be trusted with this data. A prime of misusing data is the incident where the social media giant Facebook leaked sensitive user data

DEMAND ANALYSIS

- Shapes of Demand: Just like any other company, Amazon follows the Law of Supply and Demand as Amazon has not been seen selling any Giffen Goods. With this said, not all products convey a perfect direct relationship between price and quantity, but rather a parabolic curve. In an interview with an FBA, or Fulfillment By Amazon, seller, he mentions how Amazon is always looking to fix inefficiencies in this Demand curve. If successful, shortages of “hot” products are eliminated.
- Types of Customers: Amazon’s Customers are not a specific group of people because of the variety of products Amazon has to offer. However, a study from Business Insider has classified the shoppers into three different categories, “Amazon Loyalists”, “Comparison Shopper” and finally, “Open-search Shoppers”.
<https://www.businessinsider.com/how-consumers-say-they-shop-on-amazon-2018-6>
- Out of the three groups, the “Amazon Loyalists” would be most sensitive to price change as they are the most committed to shopping on Amazon.
- On the other hand, the “Open-search Shoppers” would be least affected by a price change as their shopping begins their search for a specific product away from Amazon.



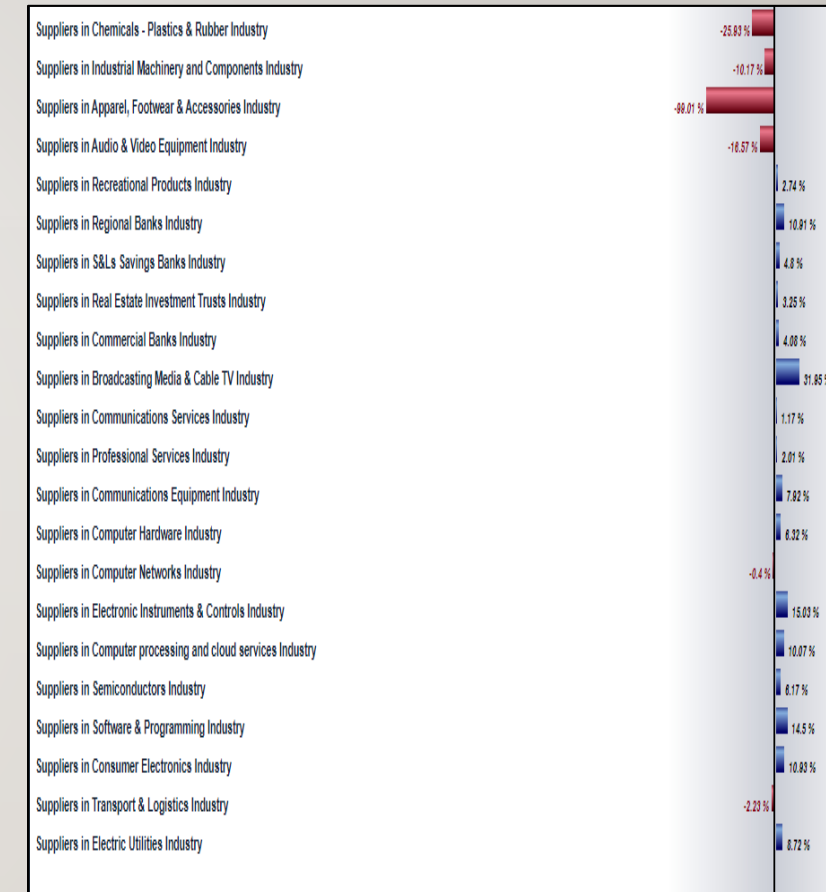
DEMAND ANALYSIS continued...

- Price Discrimination: Amazon price discriminates legally just like any other company would. Its method, however, is unique. Due to the data Amazon collects, it can track a consumer's habits. Based on one's habits, Amazon can then change price of a product for an individual hoping that the person would buy whatever product they have interest in. Another method Amazon uses is Price Discrimination by Zip or Area code. With a such a large amount of people using Amazon, there is no doubt that these methods work.
- Other Price Strategies: **Note: Since Amazon allows private businesses to sell goods on their site, business owners have revealed methods that get their products sold which in turn shows average person a peak behind the curtain.
 - Coupon codes
 - Free Shipping/Different Shipping Options
 - Manipulating Consumer Psychology by varying how many cents are part of the price tag. Every cent counts and then logically, the higher the price the more profit made.
 - Increasing prices slowly and dropping prices quickly.

Price	Perceived as	Extra Profit	Extra Profit a year, if selling 10 a day
\$29.98	\$29	98 cents	\$3577.00
\$29.99	\$29	99 cents	\$3613.50
\$29.27	\$29	27 cents	\$985.50
\$29.65	\$29	65 cents	\$2372.50

SUPPLY ANALYSIS

- Key Suppliers: Since Amazon does not assemble a single component some of its top suppliers for the website include...
 - Applied Optoelectronics – Optical devices and components
 - GoPro – Wearable video cameras
 - Nautilus – Fitness equipment and products
 - Lifetime Brands – Houseware/Kitchenware
- Once again, since Amazon is an online market with virtually anything being sold, it does not rely heavily on a supplier.
- The company does diversify its suppliers because without a catalog of products, the company would not exist making it more than necessary do so.
- Although there may not be any major risks for production and/or distribution process for Amazon, common sense points to the risk of a missing package or a miscarried package to a customer. Amazon has multiple webpages regarding what to do if a customer thinks that their package is missing and/or mishandled so if there was an instance if such scenario occurred, it can be resolved as soon as possible.



STOCK PRICE & INVESTMENT ANALYSIS

Market Capitalization (12/05/2014-12/09/2019)



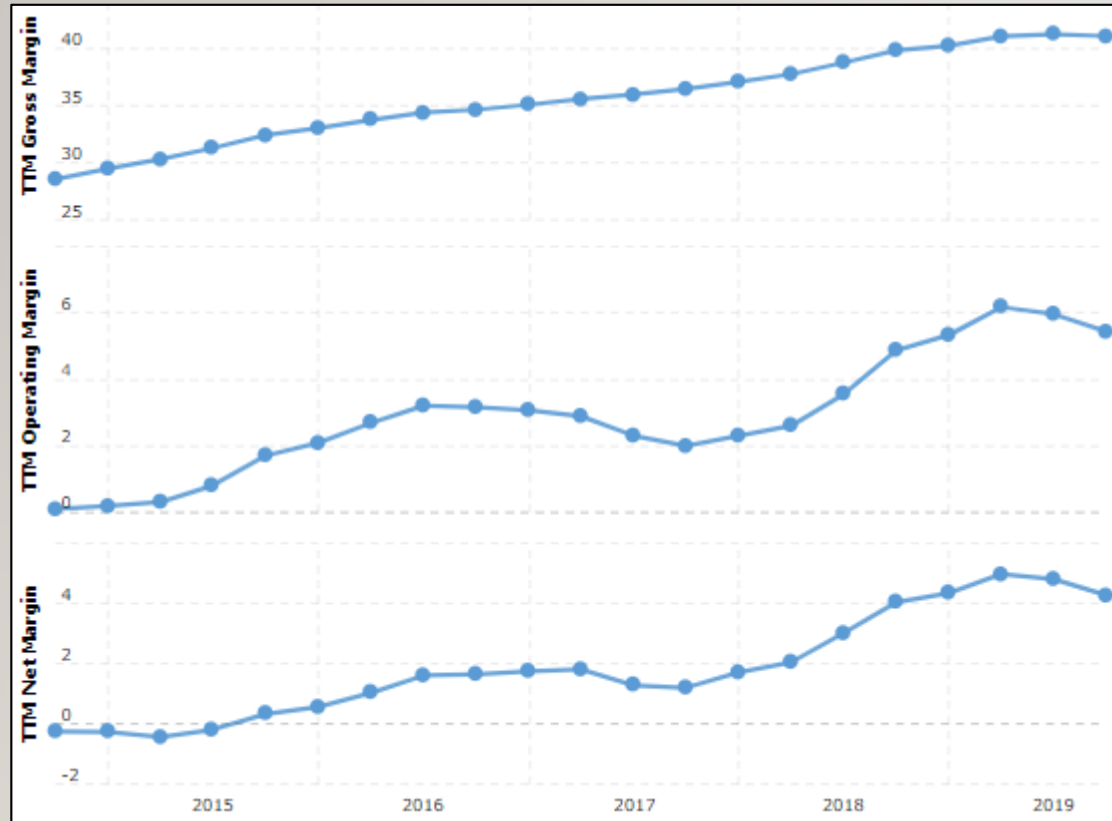
Historical Stock Price (12/05/2014-12/09/2019)



- Amazon's Forward Dividend Yield has been 0 (zero) for the past 5 years.

STOCK PRICE & INVESTMENT ANALYSIS continued...

Profit Margin (10/01/2014-10/01/2019)



Stock Market Index (12/08/2014-11/25/2019)



The stock market index has generally increased and has a direct correlation with the stock prices over the past five years which has also generally increased.

STOCK PRICE & INVESTMENT ANALYSIS continued...

- As provided by the previous slides, the company's market capitalization does share the same trend as the stock price. This can be recognized as increasing, or it can be seen as an exponential curve.
- No, the stock price change cannot be explained by the company's forward dividend yield because Amazon has not had a forward dividend yield in the past 5 years.
- The stock price change cannot be fully explained by the profit margin because the profit margin exhibits a less intense curve as the one that represents the stock price change. However, there is a similarity between the two graphs; a widespread positive slope.
- The stock market price moves in the same direction as the stock market index.
- As of 12/4/19, my recommendation is to BUY Amazon stock. The past couple days, possibly due to Amazon's Cyber Monday deals, has forced Amazon stock to slowly decline. With this said, and how Amazon is an ever-expanding company, now might be the prime opportunity to buy stock. Do this either now, or in the coming days. My bold statement is, how buying Amazon stock seems like safe bet, at any time, just based off the giants overwhelming success.



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- Slide 12: STOCK PRICE & INVESTMENT ANALYSIS continued...
 - <https://www.macrotrends.net/stocks/charts/AMZN/amazon/profit-margins> >> Graph the stock market index
- Slide 13: STOCK PRICE & INVESTMENT ANALYSIS continued...
 - <https://stockinvest.us/technical-analysis/AMZN> >> Do you recommend buying or selling stock now?

