

# Management Information Systems MIS 310

**Larisa Cherkasov, MBA**

Martin V. Smith School of Business and Economics

CSU Channel Islands

Email: [Larisa.Cherkasov@csuci.edu](mailto:Larisa.Cherkasov@csuci.edu)

# Amazon.com Inc

# Why Study Amazon?

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- The World's Most Valuable Retailer
  - From being “Earth’s biggest bookstore” to “Earth’s biggest anything store,”
  - E- Commerce superstar
    - 1-click purchase
    - Interactive Searching System
    - Recommendation System
  - Amazon MarketPlace
  - Amazon Prime
  - Line of Consumer Technology Products
  - Disruptive Consumer Business
  - Expanding Into Physical Stores
- Outstanding Fulfillment and Logistics Business
  - Automated Fulfillment, Warehouse and Supply Chain Management
  - Effective Shipping and Delivery Infrastructure



# Why Study Amazon?

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- Most Profitable Provider of Cloud Computing
  - Personal Space
  - AWS
- Technology
  - Proprietary Technologies
  - Innovations and Experimentations
  - Data Driven Automation
- Customer Relationships
  - Retention over acquisition
  - Value and customer experience
- Strategic Partnerships
  - Partners in different sectors
  - Marketplace
  - Affiliates program



# Amazon Story

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- Spring 1994, Jeff Bezos observed that Internet usage was increasing by 2,300 percent a year.
- Chose books to start with because ....
  - Perfect for the Internet, which could share a vast database with a virtually limitless number of people
- Chose Seattle as HQ because ....
  - Access to the book wholesaler Ingram
  - Pool of computer talent
- Named it Amazon because .....
  - The endless South American river with numberless branches.
- Postponed profits and concentrated on
  - Expanding warehousing capacity.
  - Building e-commerce operations worldwide.
  - Developing a cloud computing platform.
  - Pioneering in eBook readers.



# Amazon Story

## Amazon.com Inc., consolidated income statement

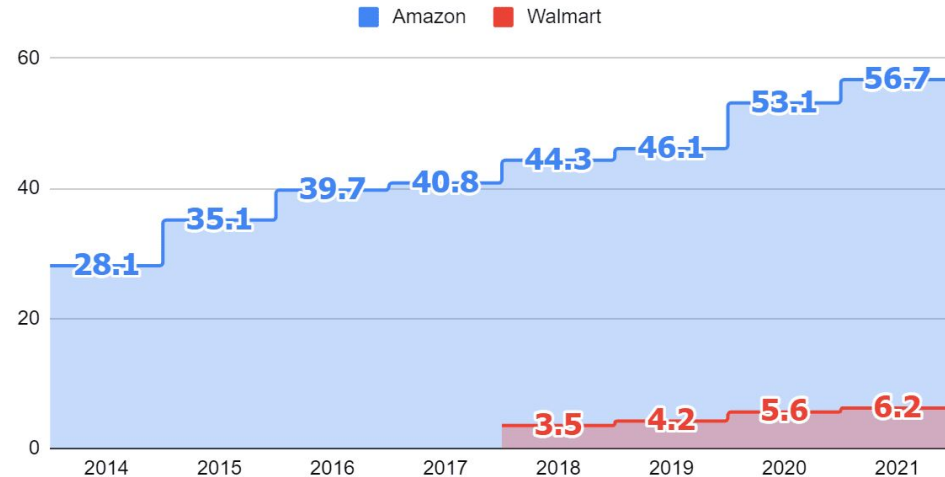
US\$ in millions



	12 months ended:	Dec 31, 2022	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019	Dec 31, 2018
Net product sales		242,901	241,787	215,915	160,408	141,915
Net services sales		271,082	228,035	170,149	120,114	90,972
<b>Net sales</b>		<b>513,983</b>	<b>469,822</b>	<b>386,064</b>	<b>280,522</b>	<b>232,887</b>
Cost of sales		(288,831)	(272,344)	(233,307)	(165,536)	(139,156)
<b>Gross profit</b>		<b>225,152</b>	<b>197,478</b>	<b>152,757</b>	<b>114,986</b>	<b>93,731</b>
Fulfillment		(84,299)	(75,111)	(58,517)	(40,232)	(34,027)
Technology and content		(73,213)	(56,052)	(42,740)	(35,931)	(28,837)
Sales and marketing		(42,238)	(32,551)	(22,008)	(18,878)	(13,814)
General and administrative		(11,891)	(8,823)	(6,668)	(5,203)	(4,336)
Other operating income (expense), net		(1,263)	(62)	75	(201)	(296)
<b>Operating income</b>		<b>12,248</b>	<b>24,879</b>	<b>22,899</b>	<b>14,541</b>	<b>12,421</b>
Interest income		989	448	555	832	440
Interest expense		(2,367)	(1,809)	(1,647)	(1,600)	(1,417)
Marketable equity securities valuation gains (losses)		(13,870)	11,526	525	7	145
Equity warrant valuation gains (losses)		(2,132)	1,315	1,527	11	(131)
Upward adjustments relating to equity investments in private companies		76	1,866	342	328	
Foreign currency gains (losses)		(340)	(55)	35	(20)	(206)
Other, net		(540)	(19)	(58)	(123)	9

## Amazon vs Walmart: % Share of US eCommerce Sales

Source: PYMNTS



<https://www.stock-analysis-on.net/NASDAQ/Company/Amazoncom-Inc/Financial-Statement/Income-Statement>

- In 2022, Amazon's share of the US ecommerce market was 37.6%.
- Amazon's total net sales in 2024 were about \$638.0 billion.

# The World's Most Valuable Retailer

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- Pillars of the business:
  - Large selection, convenience, and lower prices.
- Grew beyond a virtual shopping place for book
  - From being “Earth’s biggest bookstore” to “Earth’s biggest anything store,”
  - There are over 600 million products listed on the marketplace, and 12 million of these items are sold by Amazon itself.
- Platform for the retailer and individuals
  - Amazon Marketplace
    - Amazon doesn’t own inventory of marketplace items
    - Sellers can ship products themselves, or use ‘Fulfilled by Amazon’ program
    - Allows to build a long tail of product offerings without the costly risk
  - Two-sided network effect
    - As number of customers increase, more products can be offered

# The World's Most Valuable Retailer

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- Amazon Prime
  - Annual Membership Fee Includes:
    - Free two-day shipping for millions of products
    - Tens of thousands of items available in an hour or less through Prime Now
    - Movie streaming with Prime Video
    - One-hour restaurant delivery
    - One free e-book a month
    - Ad-free viewing of a streaming video-game channel on Twitch
    - Special deals and extra 10% off sale items in Whole Foods
    - Prime Student, a six month free membership to Amazon Prime
  - Account for 60% of the total dollar value of all merchandise sold
  - Amazon Prime is estimated to have over 240 million subscribers worldwide in 2025
  - Customers spend around \$2,500 on Amazon annually



# The World's Most Valuable Retailer

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- Kindle Line
  - Firm's top-selling products
  - Arrives linked to the customer's Amazon account
  - Connects customers to the firm's product offerings and inventory
  - Kindle versions are sold at or below costs.
- Amazon Echo
  - Alexa Artificial Intelligence voice-assistant
  - Voice interaction, music playback, setting alarms, streaming podcasts, playing audiobooks, providing real-time information.
- Fire TV stick
- Amazon Dash Wand and Dash Button

# The World's Most Valuable Retailer

- Using the “bricks” of a physical retail presence
- Amazon Campus Book store
  - First store was opened at Purdue University in 2015
- The highly curated Amazon Book stores
  - Titles with a higher-than-four-stars customer rating
- Pop-up shops showcasing Amazon’s electronic gadgets
  - Seasonal sales of Kindle, Echo, Fire TV, Fire tablets, and Dash buttons
  - [Amazon's 4-Star Store](#)
- Amazon Fresh
  - Shoppers use smartphones to make purchases in cashierless stores
  - Same-day or next-day delivery of groceries and more.
  - Sells solely groceries
  - In 2020, Amazon Fresh opened several physical store locations
    - 6 stores in Los Angeles and 3 in Chicago
- Whole Foods Markets Purchase
  - 450 stores for \$13.7b
- Convenience-store [Amazon Go](#)
  - Shoppers use smartphones to make purchases in cashierless stores
  - Face detection, image recognition, sensors, and other advanced artificial intelligence
  - Sells all kinds of goods, from groceries to homeware, to electronics
  - First store was opened in Seattle in 2016

# Fulfillment Operations

- Advanced warehouse infrastructure
  - New products are prepped for order within hours of arrival.
  - As each box comes off the truck, it is photographed and scanned on all sides
  - Image-recognition algorithms sort each parcel based on the type of product, size and weight
  - Robots bring the shelves with the item to the worker for scanning
    - Bought out Kiva robots to help improve their shipping times
  - Motion sensors and floor-mounted guides help robots find their way.
  - Similar items are stored on different shelves to avoid mistakes
  - The firm weights every box before shipping as a final check point
  - Names and addresses are stamped on boxes after orders are complete and boxes are sealed
- Robots make a warehouse 50% more efficient and able to hold 50% more product
- It costs \$46 million to set up a warehouse with a robot-run system.
- Automated fulfillment centers require more human workers, because the warehouse can store more products

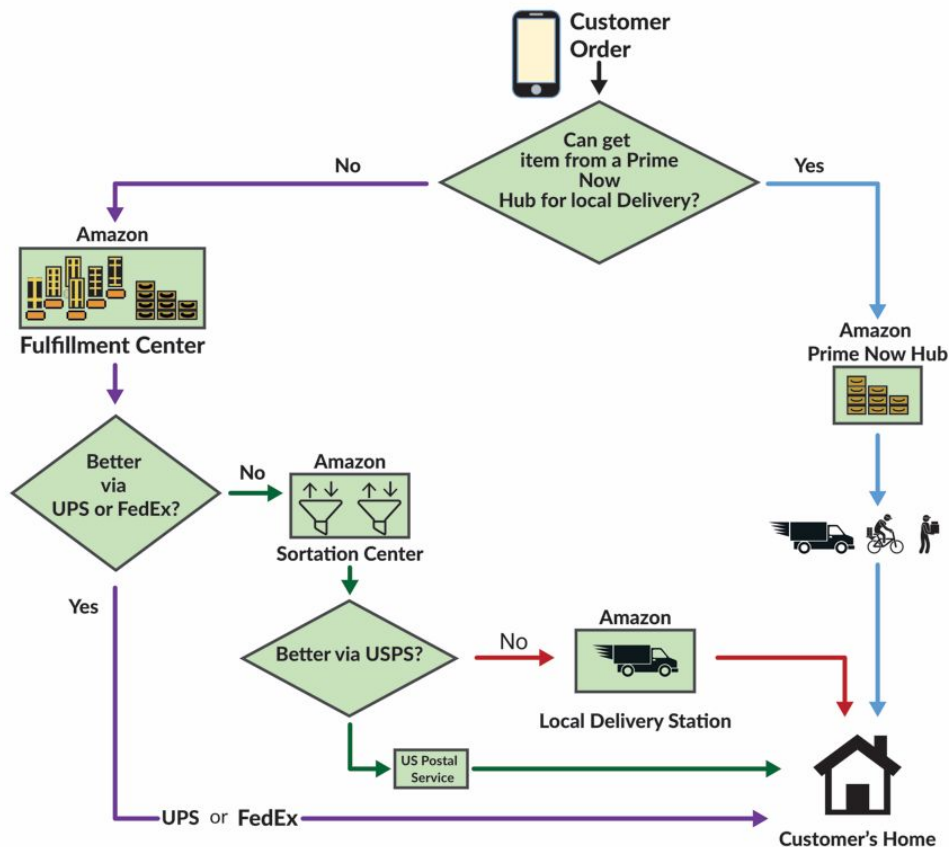
# Delivery And Logistics

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- Cost and control drive Amazon's interest in logistics.
- Amazon's delivery infrastructure includes
  - Fleet of Prime Air cargo jets
  - Long-haul trailers and local trucks,
  - Network of sortation facilities
  - Transoceanic shipping operations
  - Plans for automated delivery-by-drone
- Delivery costs add up to about 10% to 15% of net sales revenue.
- Control over the customer experience.
- Reduces dependence on partnerships with FedEx, DHL, and USPS

# Delivery And Logistics

- Advance Analytics for picking the optimal way to get packages to consumers
- Delivered more packages to U.S. homes in 2022 than UPS, after eclipsing FedEx in 2020



# Amazon as Cloud Computing Provider

- Consumer cloud-based offerings that store and serve up digital content over the Internet.
  - Monetized expertise in scalability and reliability
  - Turned into a revenue-generating business
- Cloud offering for personal use
  - Amazon Cloud Drive
  - Kindle and Kindle Fire App
  - Amazon Cloud Player
- Amazon Web Services (AWS) allows firms to rent industrial-strength computing capacity
  - Amazon's Elastic Computing Cloud (EC2) provides the virtual computing solution
  - Simple Storage Service (S3) providing Web-based storage
  - Amazon WorkSpaces provides access to fully-functional, virtual Windows PCs
  - AWS powers hundreds of businesses, including Etsy, Airbnb, Pinterest , Yelp
  - Highly-profitable, fastest-growing business

# Customer Relations

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- Relentless customer focus.
  - Bezos quotes:
    - “Our vision is the world’s most customer-centric company. The place where people come to find and discover anything they might want to buy online.”
    - “Our customers are loyal to us right up until the second somebody offers them a better service, and I love that. it’s super-motivating for us.”
- Emphasis on customer retention over just acquisition
- Focus on delivering value and improving the customer experience
  - Patented 1-click ordering
  - Recommendation system
    - AI system which recommends items by customers past purchases and searching data.
    - Interactive platform between website and customers
- Amazon Prime is used to provide value and create habit-changing behaviors
  - Extensive customer data
  - Information is used to spin out new products and services
  - Makes customers rely on Amazon

<https://www.researchgate.net/publication/261440748/download>

# Amazon.com Technology

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- Uses Primarily Proprietary Technologies
  - Competitive advantage through developing its technology internally
  - The seller platform A9, wholly-owned subsidiary focused on search technology, web services and digital initiatives
- Innovations and Experimentations
  - The innovation strategy
  - Test-driven approach to improving results
  - Internal experimentation platform “Weblab”
- Data Driven Automation
  - Customer channel preferences
  - Managing the way content is displayed
  - Merchandising
  - Recommendation



# Strategic Partnerships

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- Partnership with a range of companies in different sectors.
  - Consolidates strength in different sectors
  - Extends its reach into the customer-base of other suppliers
- Amazon Marketplace
  - Choice of products from a range of suppliers
  - Convenience of purchasing through a single checkout process
- Affiliates program
  - Developed its own affiliate program
  - The world's largest affiliate marketing program
  - Tiered performance-based incentives
  - Directs customers to Amazon websites

<https://www.smartinsights.com/digital-marketing-strategy/online-business-revenue-models/amazon-case-study/>

# Acquisitions And Category Extension

- Acquisition allowed broadening product offerings, absorbing potential competitors and experimenting with new products and services.

- IMDb
- Zappos
- Audible
- GoodReads
- LoveFilm
- The Washington Post
- Whole Foods



- Growing its own brands in new categories

- Private label products
- Amazon Instant Video
- Content creation
  - Book publishing
  - Amazon Studios
  - Amazon Game Studios and Twitch
- Amazon Fresh, Amazon Go
- Blue Origin



# Amazon: Sources

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[Amazon Go](#)

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