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17-612 – Fall 2023

Business and Marketing Strategy

**Business Case Workbook**

Amazon

Alexa Echo

[insert the name of your product idea name, when ready]

By Carl Gruhn

*About this course.*

*In this course, students develop a business justification for adding a new technology product to an existing product line of a publicly-traded company. The focus is on developing skills with applying business, strategy, marketing and financial concepts in the early stage of a new product idea and understanding their interrelationships with product and engineering decisions.*

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# Executive Summary

*[ this section is to be completed for the last assignment of this course]*

# The Business Context

|  |  |
| --- | --- |
| Company Name | Amazon |
| Stock Exchange Symbol | NASDAQ: AMZN |
| Website | https://www.aboutamazon.com/ |
| Corporate Headquarters Location | 410 Terry Ave. N  Seattle, WA 98109 |
| Total Annual Revenue | US $ 538,046 M (2023) |
| Number of Employees | 1,541,000 (2023) |
| Founded | July 1994 |
| Business Summary | Add summary here |
| Company Statement | “to be Earth’s most customer-centric company.”  Reference: https://www.amazon.jobs/en/landing\_pages/about-amazon |

Financials

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2022 | 2021 | 2020 |
| Revenue | $ 513,983 M | $ 469,822 M | $ 386,064 M |
| Revenue Change (%) | 9.4% | 21.7% | 37.6% |
| Gross Profit | $ 225,152 M | $ 197,478 M | $ 152,757 M |
| Gross Profit Change (%) | 14% | 29.3% | 32.8% |
| Gross Profit Margin (%) | 43.8% | 42.0% | 39.6% |
| Gross Profit Margin Change (%) | 1.8% | 2.4% | (1.4%) |
| Net Income | $ (2,722) M | $ 33,364 M | $ 21,331 |
| Net Income Change (%) | (0.5)% | 7.1% | 5.5% |
| Sales and Marketing | $ 138,428 M | $ 116,485 M | $ 87,193 M |
| Research and Development | $ 73,213 M | $ 56,052 M | $ 35,931 M |
| General and Administrative | $ 138,428 M | $ 116,485 M | $ 87,193 M |

Reference: https://www.capitaliq.com/CIQDotNet/Financial/KeyStats.aspx?companyId=18749&statekey=dc1f0a04e53748a0bc075dd80b886d39

# The Product Line Context

**Product line:** Alexa Echo

**URL:** <https://www.amazon.com/b?&node=9818047011&ref=MARS_NAV_desktop_echo>

**Overview:**

The Alexa Echo is a series of smart devices used to automate personal tasks and connect the user to other smart devices. These devices all utilize the Alexa voice assistant which is powered by a variety of AI and ML technologies to understand vocal requests and perform desired tasks. The main features of the Alexa Echo is to automate personal/home tasks, connect to other smart home devices, increase home energy efficiency, and act as a home security device.

**History:**

The Amazon echo was first introduced in November, 2014 as a black cylindrical smart speaker. It was originally only a smart speaker, but quickly developed into a smart home hub. In 2016, Amazon release a smaller version of the Echo called the Echo dot, which provided much of the same smart home functionality at a lower price, and reduced sound quality. After the original Echo release, Alexa, Amazon’s AI voice assistant, was integrated into more and more smart devices. This proliferation of Alexa, as well as some viral pithy responses from Alexa, allowed the Echo to become the smart home hub it is today.

**Market Served:**

The Amazon Alexa Echo serves a wide variety of “smart home” customers which primarily includes residential settings, though they can still be found in commercial settings as well. Echo devices provide a variety of functions through the Alexa voice assistant which, according to Amazon, allow users to “manage your calendar, follow along with recipes, catch up on news and more.” As can be understood from that statement, Echo’s automate personal and home tasks, though they also provide seamless integration with other smart devices through the Alexa voice assistant. Amazon provides a number of smart devices such as the Ring doorbell camera, though through Alexa Amazon provides a plethora of smart devices that can be controlled through the Echo. Though the functionality of the Echo is mostly geared towards residential customers, the Alexa voice assistant and smart device integration has allowed the Echo to become adopted in business settings as well. Echo devices are available in all parts of the world including North America, Europe, Asia, etc., and is currently able to understand 9 languages.

**Product List:**

This product line includes:

**Product 1: Alexa Echo**

* Type: Smart Speaker
* Key Features: Voice assistant, media playback, smart device hub
* Primary Functionality: Voice controlled assistant for performing tasks, controlling devices, playing music.
* Platform: Alexa voice assistant, Bluetooth, Alexa app
* Key technology: High quality audio, voice assistance.

**Product 2: Alexa Show**

* Type: Smart Display
* Key Features: Visual display, voice assistant, media playback, smart device hub
* Primary Functionality: Voice controlled assistant for performing tasks, touch display, controlling devices, playing music.
* Platform: Alexa voice assistant, Bluetooth, Alexa app
* Key technology: High quality audio and video, voice assistance.

**Product 3: Alexa Echo dot**

* Type: Smart Speaker
* Key Features: Voice assistant, media playback, smart device hub
* Primary Functionality: Voice controlled assistant for performing tasks, controlling devices, playing music.
* Platform: Alexa voice assistant, Bluetooth, Alexa app
* Key technology: Voice assistance.

# The Strategy Context

Amazon’s business strategy revolves around being “customer centric.” This results in creating products and services that focus on the customer’s needs and convivence. Using this goal as a guiding point, Amazon is able to target their business tactics towards to following elements:

1. **Be Global, Feel Local:** Having a universal presence has been one of Amazon’s goals from the beginning. The bookstore turned marketplace intended to serve any and all customers, starting in the United States but quickly moving international. As it is now, Amazon aims to make customers feel as though Amazon is basically next door with their same day, or at least next day, shipping.
2. **Diversifying:** Amazon has an extensive expansion strategy through their use of mergers and acquisitions. Whether it is acquiring Whole Foods in order to further selection of grocery items or purchasing Alexa to create a whole line of AI Voice Assistant products, Amazon has been able to capture a significant chunk of any market they have ventured into.
3. **Data:** Amazon was one of the first software companies that saw the value capturing customer interactions with their products. The Amazon marketplace captures significant amounts of data based on how individual customers navigate through their purchases, or lack thereof. In addition, Amazon’s smart products provide a more intimate window into how their experience can be optimized, for instance through capturing Alexa interactions.
4. **Horizontal Integration:** Amazon has focused on having control over any business aspect that they view as necessary. This has allowed them to maximize the supply chain of their marketplace products as well as take control of the cloud space with AWS. Amazon has excelled at pinpointing areas within their business model they would be vulnerable without and take control of that space.

Amazon’s future will likely see an ever expanding role of these strategies though continued innovation, further proliferation of services, advancements to AI (particularly Alexa), development or integration with IoT devices, advancements in cloud services, and expansion of their media offerings.

We will see Amazon achieve its future goals through continued customer focus, an expanding selection of products and services, focusing on innovative research and development, and

Amazon has several competitive advantages, including:

1. **Ease of use and customer convenience:** Amazon has rightfully assessed that customers are willing to bring companies into their homes and private spaces when it makes their life easier. With services like Amazon Prime, Amazon has monetized maximizing customer convivence and increased the likelihood customers will continue to use their services over competitors.
2. **Proliferation:** Amazon has made their services as close to the default as possible in every area they have ventured into. In addition, they have succeeded in integrating their technology, e.g. Alexa, into a slew of smart products.
3. **Cloud:** Amazon’s AWS cloud services is THE leading could provider available. While other companies have ventured into the space, it is still dominated by Amazon.

**Product line:** Alexa Echo

Product Line Strategy for Alexa Echo:

1. **Position within the Company’s Overall Product Group**

Alexa Echo falls within Amazon’s consumer electronics division. This division is responsible for creating, developing, and manufacturing hardware and software for Amazon related products. These products include the Kindle Fire, Amazon Firestick, the aforementioned Alexa Echo, etc.

1. **Future Direction of the Product Line**

Amazon intends to position itself as the leader in Smart home technology with the Alexa Echo, creating innovative smart and IoT products as well as further integration with the continued product development within that market ecosystem.

1. **Path to Achieving the Vision**

The Echo maintains a focus on maximizing the user experience, furthering innovation, and broadening the smart home and IoT ecosystem. Amazon has a heavy focus on ensuring compatibility and interoperability within their board product line as well as the smart home and IoT product ecosystem. Amazon also recognizes that customers must not only be able to perform desired tasks with their services but must also trust them, therefore it will continue to prioritize customer privacy and security.

1. **Factors Leading to Success:**

Alexa Echo is positioned to succeed due to several factors, including:

* 1. Amazon Product Ecosystem:

Amazon has a broad ecosystem of products and services that gives them a huge advantage over its competitors. This allows them to offer a variety of custom experiences as well as integrate their product with a wide variety of smart and IoT Amazon products.

* 1. Cross-Platform Compatibility:

Amazon Echo devices have ensured their devices work with the broadest number of third-party products as possible. This has allowed Amazon to provide a diverse array of experiences to each customer without having to develop each new step on that technology ladder.

* 1. Customer Focus:

As has been repeated many times in this document, Amazon has a singular focus on the customer. For the Echo, this results in focusing on what tasks and services would most satisfy the known and unknown desires of each customer. This also leads to providing as much convivence, either through the devices themselves or the attempt to minimize the barriers within their services.

# New Product Concept

## Alexa Echo – Kitchen Edition [Product Name TBD]

**Main Function**:

The kitchen Alexa Echo works to streamline kitchen tasks using the AI Voice Assistant Alexa as well as various sensors and accompanying IoT and smart devices. Working to automate kitchen inventory keeping and following recipes, this device aims to fully optimize the Alexa Echo’s abilities to satisfy its users.

This product would focus on kitchen tasks. In addition to commands Alexa is already proficient with such as setting timers and adding to shopping lists, this device can help maintain an inventory of groceries.

**Product Attributes:**

* Alexa Voice Assistant: Like with all Echo products, this device will be powered by Alexa’s AI, allowing users to complete tasks using only their voice.
* Weight Sensing Cutting Board: This device will incorporate a scale that may also be used as a cutting board, allowing users to: get precise ingredient measurements, log inventory by weight, and perform basic kitchen tasks using the device.
* Smart Display: The weighted cutting board will be connected to a smart display that can show the user recipes, their kitchen inventory, weight of ingredient provided, and media.
* Accompanying Smart Containers: To fully automate inventorying groceries, this device will come with containers containing RFID chips, which can be assigned to different items in the kitchen. This will allow the item to be automatically updated whenever used. The container itself could even relate back to the kitchen Echo the current weight of the items inside, removing the need to place it on the scale.

**Competitive Differentiator:**

While other smart kitchen devices exist, they only have limited capabilities. This device will not only have all the functionality of the existing Echo products that customers are already familiar with but can leverage Amazon’s expansive line of other products. For instance, this device will use smart containers to help automate inventorying items which can use the production of similar containers and sensors. This allows Amazon to create products more quickly and at a lower cost than competitors.

**Key Technology:**

* AI Voice Assist: As Alexa is a part of all Echo devices, this device will continue to utilize the functionality of Alexa to automate tasks.
* Smart Display: A smart, touch screen display will show information for the current task, as well as allow the user to navigate other apps and consume media while using this product.
* IoT and Smart Devices: This device will take full advantage of utilizing smart devices to provide additional automation and functionality to the user.

**Product Complements:**

* Alexa Smart Devices: This device will work well as a smart hub device, being able to control a variety of smart devices.
* Amazon Market Place: Users can select to automatically replenish items when they are determined to be low from the Amazon market place.

**Visual:**

A picture containing table, person, indoor, wooden

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**How It Works:**

1. Setup and Integration:

The customer will initialize their device using the Alexa app, setting up their desired configuration as well as the initial integration with their existing smart and IoT devices.

1. Assign Automation

This device will work seamlessly with smart containers, which will allow the user to maintain an automated kitchen inventory if desired. Beyond the automation of other smart devices, this device will specifically allow the user to decide if what, if anything, they wish to happen when it is detected they are low on an item.

1. Realtime Notifications

Following the chosen automation, the user could be notified they are low on an item and given the choice to order more. They may choose to skip this step and automatically purchase more of that item, however the goal should be notification to avoid potential issues. The user will also be able to choose other notifications that are meaningful to them such as times, news, weather, etc.

1. Voice Assistant

Beyond the automation the user chooses to setup, they may also use the Alexa voice assistant to perform tasks hands free.

1. Data Driven Decisions

By using this product, Amazon will gain more insight on the user through capturing usage data. Using this data, this device can help make pre-emptive decisions that align more with the desires of that specific user.

1. Communication

This device is able to communicate with other Alexa compatible devices such as the Ring doorbell camera. The user can choose to communicate with a visitor using the Ring camera or another user communicating on another Echo device.

# Markets

**Users:** Smart home device users

**Number of Users:** 400 million globally (source: <https://techjury.net/blog/smart-home-statistics/>)

Note: Estimate for 2024 smart device households based on current growth rates.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Segment 1 | Segment 2 | Segment 3 |
| Segment Name | Smart Home Enthusiasts Users | Moderate Smart Home Device Users | Casual Smart Home Device Users |
| Geographic | US | US | US |
| Number of Smart Devices Owned | 3 or More Device  (26%) | 2 Devices  (18%) | 1 Device  (56%) |
| Experience with Smart home devices | High, will utilize smart hub to control / automate smart devices. | Moderate, minimal automation | Low, little to no home automation |
| Size (TAM) | Total Smart Device Users: 400 million  26% of Population are enthusiasts.  TAM = 400M x 0.26  =104 million people | Total Smart Device Users: 400 million  18% of Population are enthusiasts.  TAM = 400M x 0.18  =72 million people | Total Smart Device Users: 400 million  26% of Population are enthusiasts.  TAM = 400M x 0.26  =224 million people |

# Competitive Positioning

**Product Category:** Smart home device

Noteworthy Products in Category:

* Amazon Alexa Echo
* Google Nest
* Apple Homepod

**Product Life Cycle Stage:** With the estimated continued expansion of smart home devices, these devices are still in their Growth life cycle.

**Growth Rate:** Smart speakers are expected to grow 21% according to techjury.

**Competition:**

1. Google Nest
   1. Brand: Nest
   2. Company: Google
   3. Differentiation:
      1. Google service integration, low price, automation
2. Apple Homepod
   1. Brand: Homepod
   2. Company: Apple
   3. Differentiation:
      1. Integration with other apple products, Apple services, automation
3. Manual, i.e. using devices or shopping manually.
   1. Differentiation:
      1. Lowest cost, least amount of personal data collected, no barrier to entry.

**Product Positioning**

The following criteria are evaluated to create a positioning strategy:

* Price – Cost of device to customer (high price results in higher score)
* Convenience – The ability to perform task or create automations (more convenience the higher the score)
* Services – Number of integrated services e.g. Google music, AppleTV, etc., (more services the higher the score)
* Integration – Number of other smart devices that can be controlled through this device (the greater number of integrated devices the higher the score).
* Kitchen Specific Automation – This is the number of kitchen tasks that can be automated by these devices such as setting times (the more the higher the score)
* Automated Inventory – This is the ability for the device to keep track of the amount of a certain item and the ability to purchase more automatically (the higher the ability the higher the score)

**Position to own:**

The Amazon Kitchen Echo will be positioned as shown by the ovals in the graph above. Many of the devices share very similar positioning only targeted towards their specific smart device compatibly ecosystem with only slight differences. We will target the specific automation and tasks that will maximize convenience in the kitchen. This includes allowing automated inventory and purchasing, guided recipes, etc.

**Position Tagline:**

“Have your own personal sous chef.”

# Product

# Commercial

# Financials

# Appendix

Product strategy reference:

<https://www.profolus.com/topics/the-business-strategy-of-amazon/>

Visualization reference:

<https://www.yankodesign.com/images/design_news/2021/04/Nutrio_smart_cutting_board_that_tracks_your_nutrition.jpg>

User statistics:

<https://techjury.net/blog/smart-home-statistics/>

<https://www.mckinsey.com/spcontent/connected_homes/pdf/mckinsey_connectedhome.pdf>