Amazon Case

MBA 6210 - Section 070

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1. **Background and issues**: What business is Amazon in? Is it spreading itself too thin?

Amazon launched as a book selling website in July 1995 with a simple premise: provide low prices, vast selection, and convenience to customers [Gupta & Rodriguez, pg. 1]; this was Amazon's *core competency* and how it would be able to contribute **additional** perceived value to their customers. This initial launch was almost a beta version of what Amazon would eventually become; through their pioneering of recommendation systems [Gupta & Rodriguez, pg. 2] they began to understand customer behavior and insights based on purchases made on their site, and started tailoring the experience to customers once they were able to learn their spending habits. Their mission statement during their initial launch was "... to be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavors to offer its customers the lowest possible prices." [Amazon Jobs, pg. 1]

Amazon then expanded its product line to music, movies, and electronics; by November 2000 Amazon had launched a marketplace to allow third-party merchants the ability to sell their products on their store [Gupta & Rodriguez, pg. 1]. Through this expansion of product offerings, Amazon diversified the way the firm would deliver value to customers [Dolan, pg. 18]. Amazon expanded its product line breadth, following in the footsteps of successful multinational companies like LVHM (Moet Hennessy - Louis Vuitton) [Dolan, pg. 20]; here are some of Amazon's most successful product launches (along with the year they were released) [Gupta & Rodriguez, pg. 2-3]:

- *Amazon Web Service* - 2002
- *Amazon Prime* - 2005
- *Amazon Prime Video* - 2006
- *Amazon Kindle* - 2007
- *Amazon Echo* - 2014
- *Whole Foods* (acquisition) - 2016

Through this transformation as a company in the past twenty years, they modified their mission statement, but its fundamental core philosophy remains the same, "to be Earth's most customer-centric company." [Amazon Jobs, pg. 1] Their business is to provide customers access to as much information as possible prior to making a purchase decision. For example, Amazon sells the *Echo* on its own website as well as retailers like Best Buy, because it understands that some customers want the convenience of e-commerce, while many others have to "touch and feel" the product before purchasing [Dolan, pg. 31].

Is Amazon spreading itself too thin? While noting all of the successful product launches mentioned in the case, there is a growing list of failures that coincide with these successes. In July 2014 Amazon launched the *Fire* phone, which was almost completely and utterly an unmitigated disaster, so much so that only *three months* later they announced they would be taking a $170 million write-down on the phone [Gupta & Rodriguez, pg. 2]. The continual launch of new products, and acquisitions of other companies is an attempt to stem the "...natural tendency of relationships, whether in marriage or in business, [towards] entropy." [Dolan, pg. 39]. Amazon now has the infrastructure and brand equity to take more and more risks on products. Amazon should continue adopting different strategies for each product or service they introduce, as they continue to grow as a global service company with multiple offerings, and enhance their brand reputation and customer loyalty [Dolan, pg. 6].

2. **Analysis**: Who are Amazon's competitors? Did it make sense for Amazon to be in these different businesses? Why or why not?

Here are some of the companies outlined in the case and their industry:

- IBM (information technology)
- Netflix (media services provider)
- Apple (technology)
- Google (technology)
- W.W. Grainger (industrial supply)
- Wal-Mart (grocery)
- Lidl (grocery)
- Barnes & Noble (books)
- Best Buy (electronics)

For the products related to technology, it absolutely makes sense for Amazon to be a part of that market. For example, AWS was launched to provide cloud-computing services to a large number of companies, and provides firms with low cost and elastic information technology infrastructure that is expanded as needed. [Gupta & Rodriguez, pg. 1] This price elasticity and freedom allows companies to pick and choose how much infrastructure they need, and for start-ups in particular, this freedom is invaluable because as they scale rapidly, their costs rise exponentially, and they need to minimize this disruption to their service as they grow. For example, Duolingo, a web company that helps individuals learn new languages, used a service offered on AWS called Spotinst to optimize and streamline their infrastructure on AWS to reduce overall computing costs by over 60% in one quarter [APN, pg. 1]. This is a great example of a differentiated product delivering unique benefits and a compelling value proposition [Dolan, pg. 22] in an extremely competitive environment. The continuing success and adoption of AWS lead to $25.7 billion in revenue and $7.3 billion of operating income in 2018 [Gupta & Rodriguez, pg. 2].

Another great example is *Prime*, which gives customers the convenience of free two-day shipping for an annual subscription fee of $119. [Gupta & Rodriguez, pg. 2] Customers truly value the convenience of free two-day shipping and being able to purchase almost anything they want from the convenience of their own home. It was so successful, and that convenience so important to customers, that when Amazon increased the price of *Prime* from $79 to $99 (and then again to $119 in May 2018), membership still increased 53% in 2014 and 35% in 2015 [Gupta & Rodriguez, pg. 2].

However, not all of their ventures have been successful, as pointed out earlier with the disappointment surrounding the *Fire* phone. When Amazon acquired Whole Foods in June 2017 for $13.4 billion (at a 27% *premium*) [Gupta & Rodriguez, pg. 3], it was taking a big risk in an industry, that, up until that point, had little to no success. Amazon entered an already extremely competitive market (notorious for razor thin margins) where Wal-Mart already dominated with a 14.5% share of the market, with Whole Foods sitting all the way down at 1.2%, and Lidl, a discount supermarket chain, ready to enter the U.S. grocery market in 2017 [Gupta & Rodriguez, pg. 2]. Here is how far behind Whole Foods was compared to some of its competitors at the end of 2018 [Ladd, pg. 1]:

- Walmart ha[d] a total of 5,352 stores in the U.S. (nearly all offering groceries)
- Aldi will operate 2,500 stores by 2023
- Whole Foods operates **479** stores

The actions of a firm create outcomes not only in the short-term but also as a *franchise* [Dolan, pg. 8], and Amazon is in danger of doing damage to both brands by failing with this venture, facing stiff competition in a difficult industry. In order to align with their core mission to “...offer its customers the lowest possible prices.” [Amazon Jobs, pg. 1], Whole Foods would have to drop their prices. However, their entire business model (and why it has so few stores) revolves around its focus on organic food, which costs more to produce and does not scale nationally. [Ladd, pg. 1] This is an example of an industry where Amazon is better off not investing any more resources, and pulling out before it does any damage to its brand or reputation.

3. **Recommendations**: What should traditional retailers like Best Buy do to compete with Amazon? Based on this case and information, how should Amazon market and position itself in the future?

In the "Framework for Marketing Strategy Formation", Robert Dolan concludes that one of the three purposes of marketing should be "... incenting customers to be your brand ambassador in this connected digital world." [Dolan, pg. 39] This has never been more important than it is today, and for brands like Best Buy, they must keep customers at the forefront of their marketing decision making process in order to compete with global services companies like Amazon. Traditional retailers should mimic Amazon's usage of technology, like recommendation systems, to stay ahead of cultural trends, and personalize the shopping experience for customers.

There *are* many effective strategies for traditional retailers to combat what is known as "showrooming", where customers go to a brick-and-mortar retailer before making an online purchase. [Abrams, pg. 1] A traditional retailer could try:

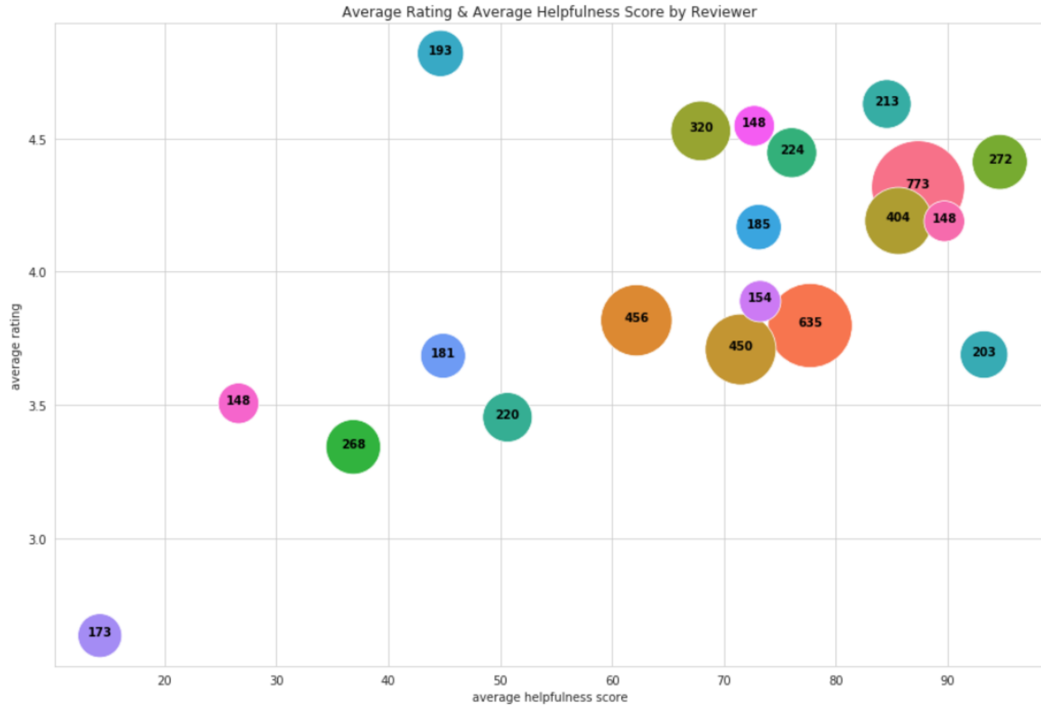
- Offering post-purchase support to customers who purchase from you
- Stocking unique items that they can't find online
- Specializing and become a desired destination for customers looking for an experience (Trader Joe's is a great example of this)
- Engaging with customers on social media, taking the fight to the digital airwaves
- Providing great service and go the extra mile; customers remember when they are treated differently

Finally, remind customers what happens when local stores go out of business: losing out on the convenience of shopping locally, the health and vibrancy of the surrounding area, and tax dollars that support schools and safe streets. [Abrams, pg. 1]

Amazon should continue their approach with adopting different strategies for their different product offerings [Dolan, pg. 6]. Amazon should also continue pouring their marketing efforts to capture preferences, perceptions, and decision making habits of the **most** important of the 5 C's, which is the customer! [Dolan, pg. 14] Customer reviews have never been a bigger of purchasing decisions than they are today, and the insight they provide is invaluable both for a customer but also for a company offering that product; mining through those reviews gives a business a much better sense of how well it is being received by customer. As part of a group project for a Big Data Analytics class, our team used sentiment analysis on Amazon reviews for video games pulled from the web and noticed that the average rating of a product generally trended upward as the helpfulness score of the review went up (see appendix). This meant that the more helpful a review, the more likely it was going to be received well by other customers.

Amazon should also continue cutting their losses before losing more time and energy on lost causes, like the Whole Foods venture. Amazon has been able to acquire, retain and transform customers as brand ambassadors through a strong marketing plan based on proven analytical approaches for making decisions. Ultimately, Amazon's success wasn't built on creating customers, but also by retaining them and making them ambassadors for the brand. Amazon approached this in many different ways, but providing customers the ability to rate their products gives them the opportunity to have their voice heard, and this is what keeps people coming back to Amazon.

Appendix



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