

To: Diego Piacentini
From: Amit Agarwal
Date: August 2014
Subject: Applying Past Experiences to Amazon.in



Diego Piacentini, senior vice president of International Consumer Business, has tasked Amit Agarwal, the vice president of International Expansion, to explain his vision for Amazon.in. Amit has been at Amazon since 1999, and seen the company grow within the US. He understands how amazon can disrupt the marketplace through their e-commerce business which provides customers with the best shopping experience. Furthermore, Agarwal has been with the company as it has struggled to enter into more ethnic markets. Amazon has found success with their business model; however, Amit struggles to find the right words to “pitch” the future of Amazon within India, his home country. He reflects upon past International Expansions which challenged Amazon, and helped them learn as a company.

Company History

Jeff Bezos founded amazon in 1995 after receiving a report that project the Web to grow 2,300 percent annually. Amazon started in Seattle, and first sold books. Within the first four months Amazon become a popular e-commerce site partially due to their offering and the deals cut with popular search engines. Operationally, Amazon decided to directly place their orders with the wholesale or publishers thereby removing the need for a large warehouse. Amazon’s website was aimed at providing customers with the best experience possible. The website allowed for sorting, recommendations, and filtering.

After only two years Amazon released their first initial public offering. With investment, Bezos began to expand the company’s distribution. Amazon opens an East Coast center for distribution, and Bezos pushes for 95% of the companies orders to be shipped the same day if in stock. By the end of 1997, Amazon was reporting \$147.8 million in yearly sales. In the beginning part of 1998, Amazon began acquiring companies which allowed it to enter the European and German market place. In 1999, Time magazine named Bezos as the “Person of the Year”.

Early Amazon was the black sheep of the financial sector. Amazon notoriously focused on long term success over immediate profit. As the “dot.com” bubble burst investors began to worry that Amazon would never turn a profit. Investors worries were unfounded once the fourth quarter of 2002. Amazon’s first posted quarterly profit was \$3 million. Over 7 years Amazon had posted \$1 billion in losses; however, in 2003 Amazon published an annual profit of \$35.3 million, and in 2004 Amazon published an annual profit of \$588.5 million. Amazon was growing at an amazing rate, and their customer centric approach to e-business was proving to be a “cash-cow”. In 2005 Amazon introduced Amazon Price, and was recognized in the S&P 500.

By 2013, Amazon International revenue was \$74.4 billion. However, their large International revenue was not devoid of problems. Amazon has always struggled with growing in emerging markets.

Opportunity

The reason Piacentini asked help from Agarwal was to assess how Amazon can capitalize on Amazon India. Agarwal can learn from Amazon's experience in China to understand how to grow Amazon India.

Learning from China

In 2002 China's e-commerce market was valued at \$1.3 billion, and by 2005 that same market had grown to \$16 billion. Alibaba's founder Jack Ma has remarked that e-commerce is a "lifestyle" for Chinese citizens. Other companies took note of this trend and invested in the Chinese market. From 2004 to 2014 the largest e-commerce companies were EachNet, Alibaba, Joyo, and Jingdong Mall. EBay invested \$100 million in EachNet, and Alibaba competed by launching Taobao and Tmall. Alibaba was founded by Jack Ma, a Chinese entrepreneur, who found success by understanding the Chinese marketplace better than competitors.

Amazon entered the marketplace by acquiring Joyo.com in 2004. Amazon faced challenges in the communist-led country. Laws and regulation related to internet usage changed how Amazon traditionally ran their business. Furthermore, China demanded that a Chinese-owned corporation operated Amazon. Purchasing Joyo allowed Amazon to enter the Chinese e-commerce marketplace. By 2007 Amazon had grown Joyo's offering by "thirty-two-fold" and changed the name to amazon.cn. Amazon continuously pushed to deliver exceptional customer experience; however, China pushed Amazon to reimagine how they did business. Piacentini invested in creating more fulfillment centers nationwide, created positive customer experiences, and developed a "last mile" campaign.

By 2014 Amazon had grown to one of the top five e-commerce websites, and Amazon had learned how to navigate an emerging market where cellphones were king and shipping was messy business. From China, Agarwal understands that consumer preferences and the government determine how companies enter into emerging markets. These reasons are why Alibaba is so successful within China. Amazon.cn was not an overwhelming victory, and it was not a failure.

Amazon International

Amazon historically has found success by prioritizing future success for momentary lower profits. This has enabled them to develop low cost structures while simultaneously offering a huge amount of merchandise selection. Amazon has also found success by prioritizing customer experiences on their site. However, Agarwal wonders if Amazon can continue to grow geographically, vertically, and horizontally.

Geographically, Amazon has always had an ability to grow and expand as internet becomes integrated with people's lives globally. Emerging markets like India, Brazil, and China offer a unique challenge for Amazon international. Amazon is faced with creating consistent timely service in countries that suffer from poor infrastructure. For example, in Brazil many rail, road, and ports were not fully constructed, and during rainy seasons travel becomes slow and dangerous. Amazon can only expand geographically in regions which have infrastructure, and/or Amazon must build their logistic networks from major cities out.

Internationally in emerging markets Amazon could struggle to expand vertically and horizontally due to the stage in which they enter the market. Early movers can capture more of the market share, third party suppliers, and customers; however, new laws and regulations can severely impact business. The benefits of moving early are shown by MercadoLibre's success in Brazil. Late movers suffer from competing with mature companies; however, the rules have been defined and horizontal integration could be easier due to these systems being established.

Amazon.in - Refer to Exhibit A for Amazon.in's SWOT Analysis

In 2009 India had 60.7 million Internet users, and in 2013 that number had grown to 189.1 million Internet users. While the internet is becoming integrated into Indian's lives, mom-and-pop stores dominate India's marketplace. India is not a country which operates on big chain stores, and customers haggle for their goods in open markets. India, like many other emerging markets, have a unique and poor infrastructure. Roads near cities have are better; however, traffic operates in irregular patterns. For example, Agarwal understands that small taxis, and motorcycles own the roads in India. India also has a poor infrastructure for energy, and power failures happen often during monsoon season. Another unique characteristic of India is that the population suffers from major differences in wealth. Even with the large amount of population using the internet 1.24 billion people live on \$1.25 a day.

Amazon also faces a large amount of competition within the e-commerce marketplace. Flipkart, a company started by two ex-Amazon employees, has used venture capitalists and acquisitions to find market share in India. Snapdeal, inspired by Alibaba, offers 5 million products from over 30,000 sellers. eBay is also within the Indian marketplace because of an acquisition in 2005. eBay has found success by coordinating shipping for its logistic partners within India, and they have invested in Snapdeal.

Amazon.in was launched in 2013, and recently Agarwal has been tasked with assessing the future of Amazon.in. Amazon bought a place at the table by acquiring Junglee.com. Their competitors had entered into the market 5 to 9 years before them; however, Amazon has had much more experience expanding into emerging markets. Amazon also has deep roots within

India. Amazon has customer service centers located within India and has executives that are native to India. Because of Amazon's ability to provide excellent logistic services Amazon provided a fulfillment service.

Agarwal Suggestions - Refer to Exhibit B for Amazon's Balanced Scorecard

For Amazon to continue to grow and sustain a competitive advantage they must continue to offer amazing customer experiences. However, these experiences must be tailored towards the Indian marketplace. Amazon found success in India by offering programs such as paying by cash, free shipping, one day shipping, commission for referral, and mainstreaming sellers. For Amazon.in I believe investing in the local markets is a necessity. Amazon must develop more programs which will bring small business to Amazon and invest in local logistic channels thereby connecting small businesses to their community. Financially this should mean that Amazon should maintain their current profit ratio as their products offered expands drastically. Customers should be able to receive same day to one day delivery for products bought from local to regional vendors, and experience little hassle for receiving orders. Internally Amazon.in should strive for low supplier and customer complaints and have quick reactions to disasters such as floods and power outages. Amazon.in and other companies should define their success by annual sales volumes, repeat customers, and growth of suppliers and customers. E-commerce emerging market offers an opportunity for companies to receive great profit. However, as Amazon displayed historically, prioritizing customer experiences for profit allows for future market share.

Postscript

Amazon.in has been a success for the country of India. The government through laws and regulations have allowed mom and pop stores to prosper as the internet has grown in popularity. Amazon has had success in building local Amazon communities and in educating the Indian community about the benefits of e-commerce. Amazon launched "Amazon Chai Cart", a mobile tea cart which travels around city streets, serves chai, and educated small business owners on how they can join the e-commerce network. Amazon also launched Amazon Tatkal, a moving studio which helps shopkeepers launch their site. This helps Amazon.in expand vertically. Amazon has also found success in tailoring their supply chain to India. Fulfillment by Amazon has expanded to over two dozen warehouses, and Amazon introduced a courier service which picks up goods directly from businesses and delivers them to consumers. Amazon has also relied on outside logistic help, such as India Post, to fulfill its rural and city shipments.

Amazon has found success in India by delivering a great customer experience tailored to the ecosystem of the country. Due to Amazon's actions in India they help convince consumers that they are not putting mom and pop shops out of business, but instead empowering these businesses to grow.

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Exhibit A: SWOT Analysis – Amazon

Strengths	Weaknesses
<ul style="list-style-type: none">• Prioritizes customer experiences• Prioritizes long term gain over short term profit• Experienced entering into emerging markets• Amazon's interface is popular in western segments• Amazon has employees and business in India• Agarwal is a native Indian	<ul style="list-style-type: none">• Highly dependent on Boeing• Traditional amazon logistics won't work in India• Amazon entered the market 5 to 9 years after competition• Amazon's brand is seen as an enemy of mom and pop shops
Opportunities	Threats
<ul style="list-style-type: none">• India's population is growing• More people becoming a part of the middle class• A lot of third-party sellers• Growing use of money to buy goods and services• Growing trend of using technology to make life enjoyable• A high opinion of the western world	<ul style="list-style-type: none">• Large amounts of competition fighting for the same market• Natural disaster• Native third-party sellers aren't used to the e-commerce market• Government regulations

Exhibit B: Balanced Scorecard – Amazon.in

	Objectives	Measures	Targets	Initiatives
Financial	<ul style="list-style-type: none"> Customers buy more goods 	<ul style="list-style-type: none"> Build a larger customer 	<ul style="list-style-type: none"> Customers grow by %30 	<ul style="list-style-type: none"> Build a business that uses cash, phone payment wallet, and credit card by empowering the last mile employees with technology
Customer	<ul style="list-style-type: none"> Delivery should be hassle free Low complaints by customers and suppliers 	<ul style="list-style-type: none"> How easy is it for people to direct the “last mile” of shipment Do customers and suppliers enjoy the interface 	<ul style="list-style-type: none"> %90 of customers that put an item in their cart place an order Decrease customer complaints by %5 proportional to customers and suppliers base 	<ul style="list-style-type: none"> Connect the last mile campaign with the customer profiles Optimize the main interface which customers and supplier use
Internal Processes	<ul style="list-style-type: none"> Same day delivery 	<ul style="list-style-type: none"> Orders should be shipped the day it is delivered 	<ul style="list-style-type: none"> %95 of orders that are in the warehouse are delivered within the same day 	<ul style="list-style-type: none"> Build warehouses at key logistic areas to minimize ship times
Learning & Growth	<ul style="list-style-type: none"> Build a community within India Change brand perception of Amazon 	<ul style="list-style-type: none"> Have high amounts of repeat customers Have a high brand perception in polls 	<ul style="list-style-type: none"> %50 of customers use amazon once every 3 months to order goods Rank #1 in customer experiences and positive brand recognition 	<ul style="list-style-type: none"> Have credits that customers can use to buy local goods, like Sky Miles Support suppliers to build their native business with the help of amazon