MKIB351 GLOBAL STRATEGIC MANAGEMENT

**Addressing the effects of the global pandemic: Consultancy pitch for Amazon**

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**Background**

Amazon.com, Inc. is an American multinational technology company based in Seattle, Washington, that focuses on e-commerce, cloud computing and digital streaming. It operates through the business segments North America, International, and Amazon Web Services (AWS) (Amazon.com, Inc, 2019). Amazons stated objective is ‘to be Earth's most customer centric company’ (Amazon.com ).

**Generic Strategy**

Amazon’s generic strategy is cost leadership. The goal of this strategy is to have the lowest cost of operations in the industry. Companies that utilize this strategy such as Amazon sell products that appeal to the average consumer and have low levels of differentiation and high levels of economies of scale. Using this strategy Amazon has amassed a large market share in the ecommerce market, increased its brand presence, and been able to withstand competition due to its low operational costs and utilisation of economies of scale and innovation to continually increase productivity. However, the pursuing this strategy Amazon has continually reported low profit margins, with 2019 being no different (Amazon.com, Inc, 2019).

**Business Structure**

Amazons business structure is divisional, functional, and hierarchical. Amazons functional structure mean employees are grouped together based on their speciality and function within the business. This allows them to utilise their employees in a divisional model where large parts of the organisation are segregated into semi-autonomous groups. Amazon’s hierarchical structure means Jeff Bezos is the ultimate decision-maker with the most authority and every group below him have subsequent levels of authority.

**Financial Strength**

In 2019 Amazons financial situation was good. Amazon had a net profit margin of 4.1, higher than in every year of the last decade (Amazon.com, Inc, 2019).In 2019 its net income was $11.59 billion. Amazon’s current ratio was 1.10 in 2019 (Amazon.com, Inc, 2019) which is considered a healthy ratio especially for the ecommerce industry. However, by January 30th the global pandemic was officially announced a public health emergency of international concern (World Health Organisation , 2020)**.**

**VRIO Analysis**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Capability | Valuable | Rare | Costly to imitate | Organisation capable of exploiting | Sustained  Competitive Advantage |
| Global Brand Presence | yes | yes | yes | yes | yes |
| Diverse Portfolio of digital services | yes | yes | yes | yes | yes |
| Market share | yes | yes | yes | yes | yes |
| Market capitalisation | yes | yes | yes | yes | yes |
| International network of affiliates | yes | yes | yes | yes | yes |
| Logistical and operational capacity | yes | no | yes | yes | no |
| Expertise in ecommerce | yes | no | no | yes | no |
| Portfolio of private label products | yes | No | yes | yes | no |
| Economies of scale | yes | yes | yes | yes | yes |
| Innovation | yes | yes | yes | yes | yes |

Amazon’s main sources of sustained competitive advantage are its high levels of innovation, economies of scale, portfolio of digital services, brand presence and International network of affiliates that expand its international market reach. Moving forward utilising these advantages are key to maintaining and improving on its competitive advantage.

**Porters Five Forces**

Porter’s five forces is a business analysis tool that aims to understand the underlying mechanism that shape competition within an industry (Porter, 1979). The five forces include competitive rivalry, buyer power, seller power, threat of substitutes and threat of new entries.

In the ecommerce market the rivalry is highly competitive due to the high availability of substitutes, low switching costs and already established strong competitors such as Walmart and eBay. Consumers have a high level of buying power due to high quality of information (price and quality comparisons), low switching costs and high availability of substitutes. Seller power is moderate due to Amazon’s market influence that it leverages against suppliers so it can obtain lower prices. However, Amazon uses a small network of suppliers and if they were to increase their price this would have a significant negative impact on the costs of operations, which amazon is particularly sensitive to give its position as a cost leader. Also, the threat of substitution is high given the low switching costs, high availability of substitutes and price sensitivity of its customers. If a new innovative company was to offer a lower price and better service, then many customers would switch to the new company. The threat of new entries is low due to the high costs of brand development and the high economies of scale which would be necessary to compete against Amazon and other big companies.

**Pestel analysis**

Pestel analysis is a business analysis tool that aims to understand the macro-economic environment in relation to a company (Nandonde, 2019) (Aguilar, 1967). In this analysis the main issues of the six factors relevant to Amazon will identified and discussed.

**Political Factors:**

Amazon operates in predominantly the U.S.A and Europe. Political events such as Brexit could have negative effects on the logistics operation of Amazon in Europe as congestion at ports caused by increased red tape can lead to delays in delivery. Also, tariffs imposed by nations including China and U.S.A or the EU and Britain can lead to increased costs of operations for Amazon as it needs to ship goods internationally from these nations. In most cases tariffs are passed on to the consumer from increases in the prices of products. This increase in price of Amazon’s products will lead to a decrease in demand and lead to a decrease in revenue for Amazon.

**Economic Factors:**

The economic stability of developed markets, especially the U.S.A and European countries can have a huge effect on Amazon because economic instability can decrease demand for their products and can threaten their market capitalisation by people being reluctant to spend in when economic markets are unstable. Increasing disposable incomes in developing countries may increase demand for products sold by Amazon.

**Social Factors:**

Increasing consumerism in developing countries is an opportunity for Amazon as it allows for more chances to sell products and expand into international markets. Also, increasing online buying habits presents opportunities for Amazon as it will allow Amazon to increase its market share because people are substituting high street retail with online ecommerce.

**Technological Factors:**

Rapid technological innovation is both a threat and opportunity for Amazon as it can lead to competitors gaining a technological edge that threatens Amazon’s position as a cost leader, but it is an opportunity because it means Amazon can further increase their efficiencies. For instance, self-driving cars and autonomous drones (Amazon Prime Air) are innovations that can allow Amazon to become more efficient and reduce costs by reducing the costs of wages.

**Environmental Factors:**

There is a rising interest in environmental programs and low-carbon lifestyles. Companies that shun the expectations of the public to have an environmental policy will harm their brand image. By having an environment and sustainability program the value of the Amazon brand increases as people more likely to see Amazon favourably because they are acting on their perceived responsibility as a major organisation to act on environmental issues.

**Legal Factors:**

Amazon must contend with the legal regulations placed on products and security. Health and safety of products must be ensured and failure to do so results in legal and financial consequences. Also, patent legislation incentivises companies like Amazon to innovate with the understanding that innovations will be protected by the patent legislation. However, changes to this legislation could leave Amazon vulnerable to their innovative products and services being used by competitors.

**Swot analysis**

Swot analysis is a business analysis tool that aims to identify the internal strengths and weaknesses and the external threats and opportunities that influence a company. In this analysis these categories in relation to Amazon will be identified and discussed.

**Strengths:**

From its inception Amazon has been innovative and utilises its innovations for competitive advantage. One of Amazon’s biggest strengths is it continues to innovate. Also, Amazons diverse and growing portfolio of digital service is a key strength as it increases revenues. Its online services such as Prime Video increase its brand presence and keep customer loyal and buying Amazon Prime. Amazons economies of scale is a key strength as it reduces the cost of operations allowing Amazon to be a cost leader.

**Weakness:**

One of Amazons biggest weaknesses is its small profit margins. |Even before Covid-19 Amazon’s margins were low on average. This made Amazon not as profitable as many thought it should be considering its market share and revenues. One explanation for the shrinking margins is the costs of its extensive delivery and logistics network to operate and maintain. The strategy of offering free shipping to Prime members is expensive.

**Opportunities:**

Amazon has many opportunities for global expansion, mainly in Asian developing economies. Amazon has opportunities to increase its physical stores especially with the acquisition of wholefoods and the creation of Amazon Go.

**Threats:**

Local competition can take potential market share away from Amazon thereby making it hard for Amazon to make profits from nations that have localised alternatives. For example, India has Snapdeal and Flipkart which are local E-commerce retailers that are taking away much of the market from Amazon. Also, after covid-19 there is an anticipated fall in demand as high street retail reopens and concerns about public shopping decreases.

**Competition**

Amazon’s competition has also benefitted from the pandemic. The market share of competitors increased, and they may have gained a foothold in the online ecommerce market. For instance, Costco and Walmart gained a bigger online presence through click and collect services during the pandemic (Eley & Ryan, 2020). Also, if we compare the different parts of Amazon to comparable companies like prime streaming music to Netflix and Spotify then these companies outperformed Amazon. The key to outperforming competitors in the future is retaining the customers that came due to the pandemic. The older generation.

**Value Chain Analysis**

Apple value chain analysis is an analytical framework that assists in identifying business activities that can create value and competitive advantage to the business (Porter, 1985). Value chain analysis is divided between primary activities (inbound logistics, operations, outbound logistics, marketing and sales, customer service) and support activities (infrastructure, human resource management, technological development, and procurement).

**Inbound Logistics**

Amazon receives inventory from private label suppliers or sellers that use Fulfilment by Amazon (FBA). FBA allows for the products of third-party sellers eligible for Amazon Prime free two-day shipping, free shipping, and other benefits (Amazon.com, Inc ). Without FBA, sellers on Amazon marketplace must be responsible for the logistics of their product.

**Operations**

The operations of Amazon include packaging, sorting, and creating new content on their digital services. AWS offers pay-as-you-go cloud storage, compute resources, networking, and computing services.

**Outbound Logistics**

Amazon operates more than 175 fulfilment centres around the globe and the company uses large scale automation to manage receipt, picking, and shipment of products (Amazon.com ). Amazon has ordered 100,000 electric vans trucks to deliver goods (Amazon.com, Inc, 2019) and has digital delivery for downloadable products. Amazon Prime Air and Amazon Flex show the intent to innovate their logistics.

**Marketing and Sales**

In 2016, Amazon spent more on marketing than Wal-Mart Stores, Target, Best Buy, Home Depot, and Kroger combined. Also, Amazon has a huge quantity of data and generates a large quantity of revenue from advertisements and data having made $7.4 Billion from advertisements in 2016 (Day & Gu, 2019).

**Customer service**

For sellers, Amazon offers Selling Coach program (Amazon.com, Inc ). This service aims to improve seller information so they can make better decisions such as when to buy new stock. For buyers Amazon’s customer service is available to anyone who has an account. The e-commerce and cloud computing company were in the top five customer satisfaction ratings of UK Customer Satisfaction Index (UKCSI) by the Institute of Customer Service for fifth year in a row in 2018 (The Institute of Customer Service , 2018).

**Infrastructure**

Amazon has a significant amount of infrastructure including warehouses and fulfilment centres that support the storing, picking, and sorting of products. Amazon has numerous data centres to support its cloud computing service AWS (Amazon.com ). Amazon has an extensive logistics network to support delivery both inbound and outbound.

**Human Resource Management**

Amazon has a HR department and employee initiatives to help support the management of its huge number of employees. For instance, it offers training programs $700 million to provide more than 100,000 Amazonians access to training programs, since 2012, we have offered Career Choice, a pre-paid tuition program for fulfilment centre associates looking to move into high demand occupations (Amazon.com, Inc, 2019).

**Technology Development**

Amazon.com utilizes technology innovation to differentiate itself in online customer experience. Innovations such as personalized recommendations and one-click ordering support the marketing and sales of Amazon. Back end support and integrated technological systems within the organisation have supported the efficiency of its logistics and logistics. For instance, AWS has been shown to be more than three times more efficient than traditional inhouse data services (Amazon.com, Inc, 2019).

**Procurement**

Amazons network of affiliates support the procurement of goods and services. Supplier initiatives like the FBA support the procurement of third-party goods (Amazon.com, Inc ). Amazon has over 1,500 private label suppliers which support the sales of goods and create value by supplying goods to sell.

**The Global Pandemic’s Impact on Amazon’s Value Chain**

The pandemic has affected Amazon’s global value chain in several ways. The pandemic led to increased revenues from the spike in demand, this was in part caused by the decrease in demand for substitutes as high street shopping was restricted by the pandemic. Initially, this demand was for essential items and Amazon went to great lengths to maintain the stock of essential goods over other goods, and essential items usually have lower profit margins. The operations of Amazon were affected as pandemic outbreaks at their warehoused stopped operations, and this continues to be a threat to Amazons warehouses internationally (Weise, 2020). Amazon have added 427,300 employees in 10 months that has significantly expanded its operations to meet the recent surge in demand (Weise, 2020). Also, Amazons inbound logistics have been affected by port congestion due to reduced workers at ports and the build-up of unmoved cargo (The financial Times, 2021).

**Recommendation A**

I propose Amazon should cultivate a global online food shopping service, because the global pandemic has led to changes in tastes of consumers who will moving forward demand more online food shopping services. This proposal aligns will Amazons ambition to become the most customer centric company on earth and merges well with its cost leadership strategy. In the past Amazon has acquired Whole Foods that has allowed Amazon to gain an increased foothold in the food shopping market. Given that a key goal of Amazon should be to retain the customers it has gained from the pandemic, further expanding its online food shopping presence is vital to maintaining these customers post-pandemic when shops reopen. I suggest that Amazon first buys companies that already have a presence in national markets. For instance, Iceland in the UK is an ideal candidate due to it already having an online shopping presence. Then Amazon should then use their economies of scale and logistics network to offer fast and effective delivery service at a low cost.

**Recommendation B**

Amazon should expand their streaming platform by obtaining the rights to new releases that are not being shown in the cinema and other blockbuster films. This policy will encourage new prime members to continue their membership beyond the pandemic and will make Amazon Prime Video more competitive against its rivals. This will help Amazon strategic initiative of using incentives to drive consumers into ordering from Amazons ecommerce website. The advantage of this policy is it increases demand for Prime Video from audiences wanting to see new releases. It will differentiate Amazons streaming service from its rivals because it will offer something its rivals currently do not, such as films like Tenet. Thereby increasing the value of the Amazon brand. Also, its adaptive to the changing tastes of consumers as preferences for streaming new movies is growing. However, the disadvantages to this policy are that there may be significant initial costs to gaining the rights and this money could be used elsewhere such as hiring more people to cope with increasing demand. Moreover, while it may increase demand for Prime Video and keep customer retaining their membership it may not increase new memberships as Prime is already immensely popular.

**Recommendation C**

I recommend Amazon significantly expand their automation and robotics within their warehouse, manufacturing, and distribution centres because it will reduce cost of operations to help maintain their strategic position as an industry cost leader in ecommerce. The advantages of this policy are that in the long term it allows Amazon to increase its margins on products, increasing profits which can be used to innovate in other areas that can increase product quality. Also, the economies of scale that this policy allows will reduce the threat of Amazon’s market capitalisation decreasing significantly by increasing the underlying value of the company. However, the disadvantages of this policy are that it assumes strong demand in the future, if demand were to decrease the cost effectiveness of this strategy may diminish.

**My Role**

As an operations consultant I specialize in improving the efficiency of value chains by executing cost reduction programmes and optimising business processes. In recommendation A I will focus on the existing infrastructure and operational efficiencies that can transferred and support the delivery of food shopping. For instance, evaluating whether equipment and capital can be repurposed to support a food delivery system. For recommendation B my role would be to focus on securing the digital infrastructure needed to support high traffic usage of the Amazon Prime Video website. For recommendation C my focus will be on the identification of tasks that can be automated within operational and logistics processes to maximise long term cost reductions.

**Conclusion**

Amazon’s main strengths are its economies of scale, innovation, and portfolio of digital services. Utilising these strengths will allow Amazon to overcome the challenges it faces in the future namely increased competition and take advantage of certain opportunities such as adapting to changing tastes and increased demand for online shopping. My recommendations focus on mobilising Amazons strengths to overcome challengers and adapt to emerging opportunities.

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