Applied Financial Management: Amazon: The Brink of Bankruptcy

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Amazon – Case Questions

1. Trace the evolution of the Amazon.com business from its launch in 1995 to the dot.com-collapse in 2000

a) How did the company's strategy chance over time?

b) How did capabilities evolve?

c) What value did the company deliver to all stakeholders

2. Did you agree with the decision to pursue the 'Toys "R" Us' deal?

a) Why did they do the deal?

b) Should they do more deals like this?

c) What was the impact of this transactions of the business model of Amazon.com in 2000?

Amazon – Case Questions

3. As a member of the Amazon.com board of directors in early 2001, what challenges did the company face and what actions would you take?

4. Was Jeff Bezos a good operating manager? How was he as an entrepreneur?

Part I
Amazon: The Evolution of the Amazon.com Business Model

What is Amazon?

- Founded in 1994 by Jeff Bezos
- Initially an online bookstore
- Venture capitalist investments
- Launched its IPO in 1997
- Raised $54 million
- Used this money to purchase internet e-commerce startups
- Helped with the transformation into an online superstore
- Nickname: “The Everything Store”
- KINDL and AWS are two of the best-known products

Amazon’s Business Model:
a) How did the company’s strategy chance over time?

- 1995: online bookstore
- 1997: Online superstore (selling a bit of everything)
- Explore new business models:
  - Adding auctions and an online marketplace
  - Individuals and small businesses can access Amazon’s customers
- 1998 – 1999: Invest heavily in retailing, fulfillment and customer service requirements
  - State-of-the-art business infrastructure and operations
  - Linked 9 distribution centers and 6 customer service centers located in the USA, EU and Asia
- 2000: Partnership with ‘Toys “R” Us’

Amazon’s Business Model:

b) How did capabilities evolve?

- Started picking orders by hand in Bezos’ home
- Build fulfilment centers
- Digital business infrastructure
- Linked Customer-facing processes to the back-end processes
- Provided a sustainable advantage
- Picking-and-packing supported by technology
- Enabled reducing fulfilment costs

Amazon's Business Model:
c) What value did the company deliver to all stakeholders?

- Convenience
- Accessibility
- Fast delivery
- Time saving
- Personalized shopping experience

Part II
Amazon and The ‘Toys “R” Us’ Deal

Amazon's Acquisition of 'Toys "R" Us'

a) Why did they do the deal?

- They made 'Toys "R" Us' a partner instead of a competitor
- To fill capacity in the fulfilment centers
  - Everything would run through the Amazon distribution and customer centers
- Further expand Amazon's service offerings
  - Hosting both physical and online customer-facing and logistics services

Amazon’s Acquisition of ‘Toys “R” Us’

b) Should they do more deals like this?

- If both companies benefit from the deal, Yes
- Andretti F1 example

Amazon’s Acquisition of ‘Toys “R” Us’

c) What was the impact of this transaction of the business model of Amazon.com in 2000?

- Adding Logistics Services to the business model
- (Retail, marketplace, auction and now logistics services)
- Created a “tipping point” enabling exponential growth in return
- New platform allowed them to launch e-commerce businesses:
- Faster
- Higher quality of customer experience
- Lower incremental cost
- Higher chance of success
- Clearer path to scale and profitability

Part III
Amazon: 2001 Challenges and Actions

Amazon's major Challenges in 2001

- Becoming profitable/ Cash positive by the end of 2001
- Thomas Weisel Partner:
- Analysts question the ability to gain the scale and operating efficiency to compete in the long run

Other analysts were more optimistic

- Dot-com bubble

Recommended Actions for Amazon to Meet the Challenges in 2001

- Focus on the core business:
- Prioritize e-commerce business
- Streamline operations to reduce costs
- Cost Reduction
- Improve operational Efficiency
- Strategic Partnerships and Alliances
- Financial Discipline

Part IV
Amazon’s Jeff Bezos and His Performance as an Entrepreneur and Operating Manager

Amazon’s Creator Jeff Bezos

Was Bezos a good operating manager?

- Hands on approach
- Takes calculated decisions
- Remains focused on the core objectives in difficult times
- Makes strategic business model changes when a great opportunity arrives

Amazon’s Creator Jeff Bezos

Was Bezos a good Entrepreneur?

- Vision and Mission oriented
- Determined to make Amazon successful
- Risk taker
- High risk, high reward
- Makes strategic business model changes when a great opportunity arrives
- Revolutionized shopping and online shopping

Part V
Amazon: Key Take Aways

Lessons Learned Based on Amazon's Start-up Phase in the Old Times

- Amazon took calculated risks to build its business model and grow quickly
- Continuously adapting the business model to new situations/ opportunities
- Making use of your skills to partner up with the competition for mutual benefits
- Implementing technology to innovate the warehouse management and customer service operations
- Remain determent in the face of adversity
- Be born earlier