

Major-Case Reflection Assignment #5: Audio Advice

1. For Audio Advice, what are the major advantages and disadvantages associated with using Amazon Marketplace?

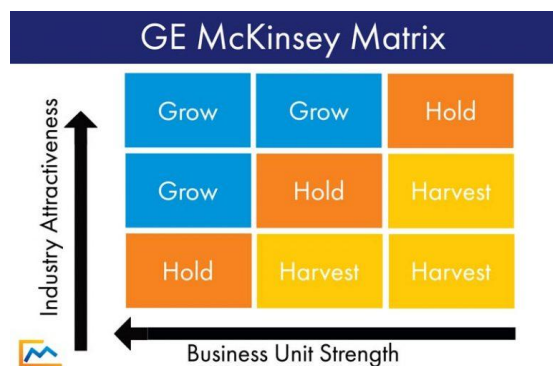
Major advantages

1. It is able to utilize Amazon's customer base, thus reaching a much larger audience base without marketing or branding effort.
2. Less logistic cost since Amazon can handle that.
3. Amazon is more capable of dealing with a large volume of orders, Audio Advice would not have the system or logistics to deal with the volume in early days.
4. Save cost for discounting, promotions and credit card processing.
5. Customers can have the product faster, and this customer satisfaction is rewarded by Amazon by boosting the ranking of Audio Advice's products.

Major disadvantages

1. Amazon can bypass Audio Advice and negotiate directly with the manufacturer for a better price, if the sales go well for a certain product.
2. It is hard to build brand awareness from the Amazon marketplace.
3. There is almost zero customer retention because of a lack of brand awareness on the marketplace.
4. 19% of the price goes to Amazon for margin, fees and warehousing, left with smaller gross profit.

2. Classify the in-store, Amazon Marketplace, and direct e-commerce business channels within a GE/McKinsey Matrix and explain why (i.e. specify where each one falls within the matrix and why). This matrix is not in the text or lecture videos. You should research the matrix and apply it here as requested.



- In-store - Harvest
 - Audio Advice is strong in this channel in the region but not nation, thus business unit strength is middle.

- But it is not the trend of the industry any more. The industry is moving towards online. So the industry attractiveness is low.
- Overall In-store channel for Audio Advice is in the “Harvest” section.
- Amazon Marketplace - Hold
 - Audio Advice will lose branding and can be easily bypassed by Amazon. Thus the business unit strength is low.
 - Online channels like Amazon Marketplace are the trend of the industry. So the industry attractiveness is high.
 - Overall Amazon Marketplace channel for Audio Advice is in the “Hold” section.
- Direct ecommerce - Grow
 - Audio Advice is mature in product, and willing to spend to have a quality website, so the business unit strength is middle.
 - Setting up an ecommerce website is the trend of the industry. So the industry attractiveness is high.
 - Overall Direct ecommerce channel for Audio Advice is in the “Grow” section.

3. Compute customer lifetime value in dollars (show your work) for Amazon Marketplace and the projected direct e-tail models using the formula below:

$$CLV = m \times \left(\frac{1+i}{1+i-RR} \right)$$

where m = annual margin, i = annual interest rate, and RR = annual retention rate

Amazon marketplace:

$$CLV_{amazon} = \$160 \times \frac{1+0.1}{1+0.1} = \$160$$

Direct e-tail:

$$CLV_{direct} = \$700 \times \frac{1+0.1}{1+0.1-0.4} = \$1100$$

Selling through direct e-tail will generate a significant more CLV compared to selling through amazon marketplace.

4. Based upon your responses to questions #2 and #3, what recommendations would you provide for Audio Advice moving forward and what is your rationale for the recommendations being made?

Based on the results from #2 and #3, it is clear that Audio Advice should invest in building their own ecommerce site. Not only is it in the “Grow” section from the GE/Mckinsey planning matrix, but also it generates much more CLV compared to the Amazon marketplace.

Furthermore, when we compare the customer LTV and acquisition cost, we can find the break-even number of customers that Audio Advice’s investment in direct e-tail is more worth than doing business on Amazon marketplace.

Cost per acquisition:

- Amazon Marketplace: \$1.5
- Direct: \$12

Setup Cost:

- Direct: \$1,000,000

Break-even number of customers:

$$1,000,000 / (1100 - 12 - 160 + 1.5) = 1076$$

If the new e-tail site acquires 1076 customers, Audio Advice would benefit more from setting up its own ecommerce site. That is very likely to happen. So from the calculation building a site is preferred than using Amazon marketplace as well.