Amazon.com, Inc.: Retailing Giant to High-Tech Player?

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Abstract

Amazon is well known for use of e-commerce or shopping online. In its early years, as it attracted more attention they began to take advantage of the increased internet traffic to support its customers more effectively. What attracted people the most was its ease of use or convenience, its fast-accurate search results, the selection of products, low prices, easy/safe transactions, timely customer service, and fast reliable deliveries. This happened because of sophisticated, developed technology used to better serve their customers. With its combination of third-party sellers it created a new experience for customers, helping them to discover new products and create better, more informed buying decisions.

Amazon's dedication to troubleshooting problems, developing solutions, and enhancing customer experience has created a successful and continually improved wed site. They are aggressive in monitoring their web site's traffic and modifying it accordingly (Bhasin, 2017). Excellence is performed in customer tracking; collecting data every time someone goes on to their web pages. Amazon then takes the collected data and directs the customer to products they might be interested in because of three reasons: It is similar to what the user was currently searching for, it was related to what the user had searched for or clicked on at any time in the past, or it had been purchased by other people who had searched or bought the same item the user was searching for.

While Amazon has contended with groups such as Apple's iPad with their Kindle devices, their main key competitors consists of other e-commerce and Web based companies like eBay and Barnes & Noble. Other competition includes companies that distribute their own digital content like iTunes and Netflix for music and video. Suppliers control the availability of supplies or materials Amazon needs for its e-commerce operations, imposing a powerful force. Price change in items from a small number of large suppliers can directly impact the company's online retail operational costs. However, moderate forward integration provides little control that suppliers have in the sale of their products to firms like Amazon. So, only external factors emphasize a real moderate significance of suppliers as a strategic determinant in the online retail industry environment.

Consumers have access to information regarding the services of online retailers and the products that Amazon sell. With this knowledge, customers can find alternatives to Amazon's online retail service. Cost of switching to other firms, such as Walmart makes it easy for customers to transfer and find better prices. The high availability of substitutes further empowers consumers to shift from one retailer to another (Greenspan, 2017a, 2017b; Swartz, 2017).

Currently, Amazon's current business model is easily replicable making it easy for new entrants to enter their market. Consumers can easily transfer to new firms with low negative effects, thereby empowering new firms to impose a formidable force against the company. Thankfully, Amazon has created a trusted brand name making it hard for new entrants to perform as well as Amazon. To complete companies would need to invest billions of dollars to create a strong brand that directly competes with the Amazon. So, new entrants are a minor strategic issue in Amazon's performance in the online retail industry environment.

Customers can easily transfer Amazon to other and decide to buy from the store that has the lowest price. There is a high availability of substitutes from e-commerce and local based competitors. The lower the costs of competitor offerings, the further influence increase of substitutes against Amazon. For Amazon to retain long-term success they need to stay focused on the threat of substitutes by keeping their brand reputation up and offer many of its items at a low cost in the online retail industry.
Even though Amazon quickly became a major player in the online retail market, they still faced various challenges. One challenge is if the U.S. Supreme Court decides to supersede its decision to not require Amazon to collect

state or local sales or use taxes. This would create an administrative burden on Amazon putting it in a competitive disadvantage, especially if similar obligations are not imposed on its online competitors. A decrease in future sales would occur if this plan were to be initiated. Amazon has been trying to make deals to collect sales tax in all 50 states so that it may open warehouses in heavily populated areas so they can provide their same one-day delivery option. This would cause a shift in its business position model causing further competition with stores like Best Buy and Target, as well as other local retailers.

Usual threats such as customer preference for instant pleasure/satisfaction always had Amazon rushing to get products in store. This is a downside as amazon must pay costly for its immediate stock rather than waiting several days for the product to be shipped to them. If Amazon were to discontinue this, they would lose their customers to local stores. Trends such as buying local can harm Amazon by losing regular consumers who might decide to buy from their local markets rather than going through an online retailer such as themselves. As of now, Amazon's current warehouse of distribution capabilities no long provide the competitive advantage they once held. Strategies such as worldwide free shipping and Amazon Prime were effective tools for marketing; however, shipping expenses have been cutting into profits, causing fees up to US$360 million in revenue, only to be slashed by the US$918 million in expenses.

There are many questions for management to answer, such as whether to spend money to develop high technology to compete on a larger scale with Sony, Apple, and Samsung, or to stick with its strengths as on online retailer and acquire more holding firms. They also need to answer important questions like, if they should push for more same-day shipping despite added cost and additional competition with big box stores and how to handle counterfeit items being sold on their site.

Basically, Amazon uses demographic and psychographic segmentation to segment the markets. Amazon's segmentation is based on actual purchase behavior, rather than what people might have expressed interest in. Amazon's segmentation targets each customer individually, allowing the company to convert visitors into long-term, high-value customers. E-commerce segmentation often involves creating personas who will buy in a certain way or certain products. Amazon usually targets the middle and upper class people who have got hands on experience in the basic technology but don't have time or prefer convenience over shopping from the physical outlets. Majority of these customers are professionals or businessmen who are busy with their business/job and find it convenient to purchase online rather than visiting the physical outlet to save time & money. These customers might also be the ones who are searching for deals. Due to this, the Amazon is known to have specific days where they give huge discounts to their buyers.

To further target potential customers, Amazon engages in permission marketing, asking permission to e-mail customers regarding specific production promotions based on prior purchases on the assumption that a targeted e-mail was more likely to be read than a blanket e-mail. This was hugely appreciated by Amazon customers, contributing further to Amazon's success. In addition, Amazon partnered up with Google by purchasing pay-per-click advertisements on their search engine. This allows products that a user might be interested in to be directed directly to their web site. As customers click on these sponsored ads, Amazon would be charged a fee for each person who clicked and was directed.

1. **Pros:** Segmentation is based on actual purchase behavior, rather than what people might have expressed interest in to attract customer individually. This helps develop Amazon's high-value customers. Email promotions are distributed based on prior purchases, having customers more likely to read them compared to pointless products from additional e-commerce sites. Teaming up with Google has brought more awareness to its e-commerce site by offering related products that customers can be taken to so they could purchase them.

2. **Cons:** Target audience is middle and upper class customers who could be searching for deals. This brings Amazon to lose customers if their product costs more than another e-commerce site or local stores. Also,

email promotions are one of the worst ways to promote product awareness, as most people have become tired of vast amounts of spam from the variety of sites they visit. Another con, is that teaming up with Google does not guarantee additional profit. As a user clicks on an advertisement, Amazon pays a fee for each redirect. However, while this is good for product awareness, it does not mean the user is going to buy or love the product.

Amazon has successfully positioned itself as a global e-commerce giant where one can buy anything & get it delivered at any remote locations. Using the catchphrase #AurDikhao in its most recent campaign in India, it has further helped them carve a distinct space in the consumer's mind. Amazon strategically locates its fulfillment centers near airports where rent is cheaper, giving them the advantage of speed and low cost over its competitors. With such a strategic set up, Amazon offers free express shipping to countries such as the United States, United Kingdom, Germany, and Japan.

1. **Pros:** Fulfillments are strategically placed to allow cheaper cost advantages near airports to allow for speedy shipments across the globe. This can be a huge factor in consumers' minds. Free shipping can also be the key element is deciding over an additional e-commerce sites that could have a larger shipping cost for certain products.

2. **Cons:** With the strategic set up Amazon offers free express shipping to its global locations. However, this can be mighty costly in their shipping charges and possibly outweigh the benefit of their fulfillment centers/ warehouses.

Management at Amazon has realized that with being an online/e-commerce company, the marketing strategy should remain online. Offline marketing such as billboards has been reduced, as they are not as effective to direct marketing approach they have been implementing. However, they had decided that to increase brand awareness, small television advertising needed to be initiated.

1. **Pros:** Not much money is needed to physically market an e-commerce company like Amazon. Offline marketing such as billboards are not effective and save money.

2. **Cons:** With being an online e-commerce company there are little ways to effectively market, unlike brick-and-mortar companies such as Target and Walmart. Best methods right now are television ads and paid online advertisements. This puts significant risk in customer awareness of the company.

Amazon is consistently looking for recommendations to improve itself. Through its website, customers can customize their recommendation list based on information customers provided about themselves, their interests and their ratings of prior purchases. They, also go a step further to collect data from users who had received gifts from their site by others but never physically been on their web page.

Even with good measure in place Amazon still has its weaknesses that could use work. Amazon generates most of its revenues from developed countries, such as the United States. When other firms become fully established in developing markets, it would be difficult for Amazon to penetrate and compete. Amazon needs to establish their presence before other large online retail firms do, thereby giving Amazon the advantage of a stronger competitive edge. Their current easily imitable business model should be taken into consideration as well. Other competitors can easily duplicate their models and take advantages of developing countries before Amazon does. Amazon needs to find a way to make their business model unique where it will be hard for competitors to compete against them.

To solve their eagerness to compete against big high technology companies like Sony, Apple, and Samsung I think they should wait out the market a bit. Instead they should find some way to work with its competitors. The best example so far has been the teaming with Apple to distribute Amazon's e-books through the iPad's Kindle app.

Amazon got a wider market for its Kindle, and the Apple iPad became a more comprehensive content provider. With Apple inviting Amazon into its business model it creates a larger overall market, a can potentially capture a bigger share for Amazon further down the road. By collaborating with additional competitors, Amazon can build new capabilities and gain better leverage on its current ones, as well as boosting its brand and technologies. The same can be said about its competitors. By cooperating with business like Apple, Amazon might be able to branch off on its own one day and create its own unique technology through the experience and knowledge of knowing some of their inside processes.

Perhaps, one of the best implementations Amazon has incorporated into their strategy, is the rating/reviews that are provided by individuals to help other customers make better and more informed decisions. Customers can narrate a review and rate the product they had experience with on a scale of 1-5 stars. Additional customers may also be able to comment on these reviews. Amazon can use these reviews to improve its site even further by weeding out products that are tarnishing its name and not living up to customer expectations.

The company's limited brick-and-mortar presence also limits the ability to attract customers to certain product types that are more sellable in physical stores than in online stores. With the creation of Amazon Go this might be possible. Currently in its testing state, Amazon Go is a new kind of store with no checkout required. Computer vision, sensor fusion, and deep learning are used to automatically detect when products are taken from or returned to the shelves and keeps track of them in a virtual cart. When customers are done shopping, they can just leave the store. Shortly after, their Amazon account will be charge with the appropriate amount and with a receipt sent.

Another one of Amazon's current issues the continuing sale of counterfeit items, which are generally against customer expectations. This condition presents an opportunity for the company to improve its technological measures and organizational policies to address counterfeit sales. A possible automated process put into effect could help with this. Tracking consumer reports and product evaluation could help Amazon seek out faulty products that do not meet company or customer satisfaction and take them off their site.

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KEYWORDS: *Amazon, supply chain management, marketing research.*

Relevance to Marketing Practitioners: This case study is relevant to retailers/marketers and researchers in dealing with competitive and supply chain management issues.

TRACK: Business-to-Business Marketing/Supply Chain Marketing