## SWOT ANALYSIS OF AMAZON

### STRENGTHS
- Low cost structure
- Largest merchandise selection
- Huge number of third party sellers
- Has grown much faster than the entire U.S. e-commerce market
- Satisfied customers - Customer Centric
- Strong background and deep pockets
- Efficient delivery network
- GLOCAL strategy
- Acquisitions
- Collaborations with the Public sector - Indian postal service

### WEAKNESSES
- Shrinking margins
- High Debt
- Product flops
- Zero margin business models
- Free Shipping - Increasing costs
- No Offline presence
- Late entry in emerging markets China & India

### OPPORTUNITIES
- Open more sites in emerging markets
- Open physical stores
- Introduce more products under its own brand
- More Acquisitions
- Efforts to improve the IT services related the e-commerce and supply chain management

### THREATS
- Low entry barriers of the industry
- Local competition
- Lawsuits from publishers and rivals
- Identity theft and hacking
- Government regulations
- Threat to Kindle - free ebooks

**STRENGTHS**
Being the world’s leading online retailer, Amazon derives its strengths primarily from a three-pronged strategic thrust on cost leadership, differentiation, and focus. This strategy has resulted in the company reaping the gains from this course of action and has helped its shareholders derive value from the company.

Low cost-leadership is pursued by Amazon by differentiating itself primarily on the basis of price. We believe that offering low prices to our customers is fundamental to our future success. We seek to partially mitigate the costs of lowering prices over time through achieving higher sales volumes, negotiating better terms with our suppliers, and achieving better operating efficiencies. Amazon makes sure that it offers the same quality products as other companies at a considerably cheaper price. Analysis of competitors? Are there services we (can/could) offer using our infrastructure that could command a premium price?

With our customer differentiation strategy, Amazon provides current and prospective customers with differentiation through design, quality or convenience by selecting a strategy that is different among the competitors.

The focus strategy takes one of the two other strategies and applies it to a niche within the market. Based on this, Amazon focuses on outstanding customer service as a niche but not the whole market because each niche has its own demand and requirement.

In Amazon’s case, the core strategy is clearly more a cost leadership one when compared with bricks and mortar retailers. Amazon has massive warehousing facilities and processing capability, which give it physical economies of scale. That in turn gives it cost advantages. But in its service it is differentiated - so it is something of a hybrid.

Amazon is ultra-keen on customer feedback, and Bezos has spread customer focus as a mantra throughout the organization. So when my wife’s year-old Kindle suddenly stopped working and she called Amazon customer service, they immediately agreed to send her another. Delighted customers spread such feedback as I have just done. Such service differentiation doesn’t just bring loyalty but also encourages customers to buy more from Amazon.

Low cost structure, the largest merchandise selection and a huge number of third party sellers. Amazon is the largest online retailer in the world. In 2014, the company earned more than US$80 billion purely from online sales, more than any other retailer in the world. At the current growth rate Amazon will become the 2nd largest retailer (as measured by revenue) in the world, behind Wal-Mart by 2018. Built on its early successes with books, Amazon now has product categories that include electronics, toys, games, home and kitchen,
white goods, brown goods and much more. Amazon has evolved as a global E-commerce giant in the last 2 decades.

- Figure 1. Amazon growth rate compared to e-commerce sales growth in U.S.

Source: Amazon financial reports\(^1\) and Internet Retailer

- Amazon has grown much faster than the entire U.S. e-commerce market, meaning that the company has actually increased its market share by taking it from competitors.

- A low-cost structure leads to lower prices, which combined with a huge range of products, results in a better customer experience. Satisfied customers invariably return to the Amazon websites, creating ever-growing traffic, which subsequently attracts 3rd party sellers to Amazon’s marketplace. All of these factors lead to faster business growth for Amazon. By only selling online, Amazon doesn’t incur any cost related to running physical retail outlets, which are usually very high. Online marketplaces also potentially allow for selling more units without any increase in marginal costs. Amazon constantly invests in both additional fulfillment centers and to existing centers to enable a reduction in order fulfillment times and shipping costs. These time and cost savings result in lower prices that are passed on to consumers.
Figure 3. Walmart prices compared to Amazon.com prices

<table>
<thead>
<tr>
<th>Walmart Category</th>
<th>SKUs</th>
<th>WMT PPI</th>
<th>WMT Perception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto</td>
<td>7%</td>
<td>-3.3%</td>
<td></td>
</tr>
<tr>
<td>Pets</td>
<td>5%</td>
<td>-3.1%</td>
<td></td>
</tr>
<tr>
<td>Beauty</td>
<td>3%</td>
<td>-2.2%</td>
<td></td>
</tr>
<tr>
<td>Household Essentials</td>
<td>1%</td>
<td>-2.1%</td>
<td></td>
</tr>
<tr>
<td>Home</td>
<td>4%</td>
<td>-1.9%</td>
<td></td>
</tr>
<tr>
<td>Electronics / Computers</td>
<td>6%</td>
<td>-0.7%</td>
<td></td>
</tr>
<tr>
<td>Sports</td>
<td>4%</td>
<td>-0.3%</td>
<td></td>
</tr>
<tr>
<td>Electronics / TV</td>
<td>4%</td>
<td>-0.2%</td>
<td></td>
</tr>
<tr>
<td>Electronics / Audio</td>
<td>6%</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>Electronics / AutoElectronics</td>
<td>8%</td>
<td>0.1%</td>
<td></td>
</tr>
<tr>
<td>Patio</td>
<td>7%</td>
<td>0.2%</td>
<td></td>
</tr>
<tr>
<td>Electronics / CellPhones</td>
<td>3%</td>
<td>0.3%</td>
<td></td>
</tr>
<tr>
<td>Electronics / Office</td>
<td>7%</td>
<td>0.7%</td>
<td></td>
</tr>
<tr>
<td>Electronics / iPods</td>
<td>2%</td>
<td>0.9%</td>
<td></td>
</tr>
<tr>
<td>Electronics / Batteries</td>
<td>2%</td>
<td>1.2%</td>
<td></td>
</tr>
<tr>
<td>Electronics / Cameras</td>
<td>6%</td>
<td>1.5%</td>
<td></td>
</tr>
<tr>
<td>Toys</td>
<td>5%</td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td>Electronics / GPS</td>
<td>3%</td>
<td>2.4%</td>
<td></td>
</tr>
<tr>
<td>Electronics / WearableTech</td>
<td>0.3%</td>
<td>2.7%</td>
<td></td>
</tr>
<tr>
<td>Electronics / Accessories</td>
<td>1%</td>
<td>2.8%</td>
<td></td>
</tr>
<tr>
<td>Electronics / Phones</td>
<td>3%</td>
<td>3.3%</td>
<td></td>
</tr>
<tr>
<td>VideoGames</td>
<td>8%</td>
<td>3.7%</td>
<td></td>
</tr>
<tr>
<td>Electronics / HomeAudio</td>
<td>4%</td>
<td>4.1%</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>0.49%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Boomerang Commerce

- Figure 3 illustrates that even though Wal-Mart is using the same cost leadership strategy as Amazon, it cannot beat Amazon’s prices on most products.

- **Selection.** According to Monsoon Commerce: Amazon sells around 339.7 million of stock keeping units (SKU’s) in its Amazon.com Marketplace. In
comparison, Walmart offers only 8 million SKU’s in its online shop, or just 2.35% of the number of products that Amazon offers. This vast difference in range is the reason why online customers are more likely to visit Amazon.com rather than Walmart’s e-shop.

- **Third party sellers.** Amazon’s business model includes accommodating third party sellers who are able to offer their own merchandise on Amazon’s sites and whose products therefore compete against Amazon’s. Third party sellers are mainly attracted to because of the high volume of traffic on Amazon sites. They often offer products that are not available through Amazon’s retail division. More than 2 million third party sellers account for more than 40% of the total units sold on Amazon’s sites. eBay is the only other online company that has as many third party sellers as Amazon.

- **Customer centric:** Company’s robust CRM has created customer centric processes in order to carefully record data on customer’s buying behavior. This enables them to offer individual items, related items or bundle them as an offer, based upon preferences demonstrated through purchases or items visited. Also, the company claims that 55% of their customers are repeat buyers resulting in low cost of acquisition of new buyers.

  Amazon delivers the goods within the promised window. It is easy to return goods and get a refund. And on the only occasion something did not turn up when expected, I found it easy to get hold of Customer Services, and the call was handled by a friendly agent, who got my situation, validated my feelings, made a promise to have the issue fixed by the next day, and it was fixed.

- **Cost leadership:** In order to differentiate itself, company has created several strategic alliances with other companies to offer superior customer service. The most important strategic tie ups are with logistics provides who control costs. Because of playing on economies of scale, Amazon is able to lower the inventory replenishment time.

- **Efficient delivery network:** With its strategic partners & due to its Amazon fulfilment centers, Amazon has created a deep & structured network in order to make the product available even at remote locations. It also has free of cost delivery charges in certain geographies.

- **GLOCAL strategy:** By using the strategy of “Go global & act local”, Amazon is able to fight with domestic E-commerce companies through absorbing & by forming / partnering with supply chain companies. The branding too is done as per local taste. For example- In India, Amazon is currently using the “Aur Dikhao” campaign to encourage users to browse more of their products.
• **Acquisitions:** Acquiring companies like Zappos.com, Junglee.com, IMBD.com, woot.com etc. has proven to be a successful and revenue generating step for the E commerce giant.

• Amazon primarily derives its competitive advantage from leveraging IT (Information Technology) and its use of e-Commerce as a scalable and an easy to ramp up platform that ensures that the company is well ahead of its competitors.

• One of the key strengths of Amazon is that it enjoys top of the mind recall from consumers globally and this recognition has helped it enter new markets, which were hitherto out of bounds for many e-Commerce companies.

• Using superior logistics and distribution systems, the company has been able to actualize better customer fulfillment and this has resulted in Amazon deriving competitive advantage over its rivals.

**WEAKNESSES**

• **Shrinking margins:** Due to extensive delivery network & price wars Amazons margins are shrinking, which is resulting in even losses. In India, Amazon had a loss of $359 crores in the year 2013-14.

• **Tax Avoidance issue:** Amazon has attracted negative publicity on account of Tax Avoidance in countries like U.S & UK. Most of its revenue is generated from these well established markets.

  Amazon got picked up by the parliamentary committee for running its sales out Luxembourg. When you buy a book on amazon.co.uk, you actually enter into a legal contract with, and pay your money to, Amazon Luxembourg. One reason is under current EU rules (being replaced from 2015), if you buy an ebook from Amazon, it is the Luxembourg VAT rate of only 3% that you end up paying.

• **High Debt:** In many developing nations Amazon is still struggling to make the business profitable thereby affecting the overall profitability of the group resulting into High debt.

• **Product flops** - Amazon launched the fire phone in the US which was a big flop. At the same time, Kindle fire did not pick up as strongly as Kindle did. Thus, there were several product flops which caused a dent in Amazon’s deep pockets.

• In recent years, Amazon as part of its diversification strategy has been “spreading itself too thin” meaning that it has allowed its focus to waver from its core competence of retailing books online and allowed itself to venture into newer focus areas. While this might be a good strategy from the risk diversification perspective, Amazon has to be cognizant of losing its strategic advantage as it moves away from its core competence.

• As Amazon offers **free shipping** to its customers, it is in the danger of losing its margins and hence, might not be able to optimize on costs because of this strategy. A simple tweak to the free shipping offer for Prime members could make a big difference to Amazon.com Inc. and create an even bigger threat for its bricks-and-mortar rivals, according to The Harvard Business Review. Unlimited free shipping for Prime members has been Amazon’s AMZN, +0.38% most effective tool in its mission to edge out competitors, but the increased market share comes at a cost. The company loses an estimated $1 billion to $2 billion on Prime shipping annually, The Harvard Business Review reported, citing Forrester Research. That is up to 11 times more than the $178 million in operating income that the company reported for fiscal 2014.

• Considering the fact that Amazon is an online only retailer, the single-minded focus on online retailing might “come in the way” of its expansion plans particularly in emerging markets.

• One of the biggest weaknesses and something that has been oft commented upon by analysts and industry experts is that Amazon operates in near **zero margin business models** that have severely dented its profitability and even though the company has high volumes and huge revenues, this has not translated into meaningful profits for the company.
OPPORTUNITIES

- **Backward Integration:** Amazon can come up with its In-house brands in different product categories. They can also differentiate their offering. This will help them make profits in highly competitive E-commerce market.

- **Global Expansion:** Expansion mainly in Asian & developing economies will help Amazon because those are the markets with low competition in E-commerce industries & are not saturated like developed economies. Expanding its global footprint and open more sites in the emerging markets, which would certainly give it an edge in the uber-competitive online retailing market.

- **Acquisitions:** By acquiring E-commerce companies it can decrease the competition level & also can use the specialized capacity of the other company.

- **Opening physical stores outside U.S:** By doing this Amazon can help the customers to engage with the brand, resulting in increase in repeat purchases & increase in loyal customer base.

- Another opportunity, which Amazon can capitalize on, relates to it rolling out more products under its own brand instead of being a forwarding site for third party products. In other words, it can increase the number of products under its own brand instead of merely selling and stocking products made by its partners.

- Amazon can increase the portfolio of its offerings wherein it stocks more products than the norm currently which places it in a position of strength and comfort as this can translate into higher revenues.

**Amazon Elastic Compute Cloud**

Amazon Elastic Compute Cloud (Amazon EC2) is a web service that provides resizable compute capacity in the cloud. It is designed to make web-scale computing easier for developers.

**Amazon S3 Storage**

Amazon S3 provides a simple web services interface that can be used to store and retrieve any amount of data, at any time, from anywhere on the web. It gives any developer access to the same highly scalable, reliable, fast, inexpensive data storage infrastructure that Amazon uses to run its own global network of web sites. The service aims to maximize benefits of scale and to pass those benefits on to developers.
**Amazon Cloud Front**

Amazon Cloud Front is a web service for content delivery. It integrates with other Amazon Web Services to give developers and businesses an easy way to distribute content to end users with low latency, high data transfer speeds, and no commitments.

**Amazon Fulfilment Web Service**

Amazon Fulfilment Web Service (Amazon FWS) allows merchants to access Amazon's world-class fulfilment capabilities through a simple web services interface. Merchants can programmatically send order information to Amazon with instructions to physically fulfil customer orders on their behalf.

Amazon continues to develop the IT systems related to the support of the Kindle e-book reader. In particular the online Kindle Book Store and the related "Whisper net" wireless distribution network.

**THREATS**

- **Low entry barriers of the industry:** Low entry barriers affect the current player’s business as more & more company means tough competition, price wars, shrinking margins & losses resulting into questioning the sustainability of the players.

- **Government regulations:** Not having clarity on the issues related to FDI in multi brand retail, has been a big hurdle in the success of the E-commerce players in many developing nations.

- **Local competition** - India has Snapdeal and Flipkart who are local E-commerce retailers and are taking away majority of the market. Similarly, there are many local players who take bites from the market share thereby making it hard for a big player like Amazon to make profits.

- One of the biggest threats to Amazon’s success is the increasing concern over online shopping because of identity theft and hacking which leaves its consumer data exposed. Therefore, Amazon has to move quickly to allay consumer concerns over its site and ensure that online privacy and security are guaranteed.
Because of its aggressive pricing strategies, the company has had to face lawsuits from publishers and rivals in the retailing industry. The obsessive focus on cost leadership that Amazon follows has become a source of trouble for the company because of the competitors being upset with Amazon taking away the business from them.


In September 2011 Allentown, Pennsylvania's Morning Call interviewed 20 past and present employees at Amazon's Breinigsville warehouse, all but one of whom criticized the company's warehouse conditions and employment practice. Specific investigatory concerns were heat so extreme it required the regular posting of ambulances to take away workers who passed out.

In December of 2014, the Supreme Court of the United States ruled unanimously against temporary staffing workers for Amazon warehouses in Nevada who were seeking compensation for time spent waiting to go through security screening checkpoints.