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Course

Case analysis part 2

Case analysis part 2

INTRODUCTION

The first part of this paper discussed about the Amazon company firm description. The firm's business model was discussed including the mission statement, vision and long term objectives. The history of Amazon was also explained and the core values and how they relate to the business model. While analyzing the firm, both industrial and external environmental analysis was outlined. The competitive analysis of the company and key success factors were also explained in detail.

This part will go further to discuss the firm's internal environmental analysis including the SWOT factors, product portfolio, miles and snow typology and financial analysis. The industrial specific strategy will be explained in details based on the product life cycle, spatial matrix and SPACE matrix. While discussing about the success of any large firm like Amazon, it is important to analyze the strategy in details using ANSOFF matrix which includes the product development, market penetration and diversification. These matrixes help understand how the company competes with other online retailers.

FIRM/INTERNAL ENVIRONMENT ANALYSIS

While evaluating and analyzing the internal environmental analysis of Amazon.com, there is need to identify the SWOT factors of the firm at large. This will help the company to understand its strength, weaknesses, opportunities and strength in penetrating the e-commerce market.

Strength

Amazon.com has a lot of internal strength which makes it the leading online retailer across the world. These strengths include the business name of the firm and diversity. Almost everyone

Case analysis part 2

across the world knows about Amazon.co as the leading online book retailer. The marketing strategy and publicity of the company has made it to be at the top in this sector. Amazon has taken a different strategy from other companies by marketing its brand name and uniqueness in what it does. The one-click shopping used by Amazon is a strength that no other e-commerce business company has identified. The company has taken a different shift of low cost structure which has seen it to the top of other companies of selling at low costs increase sales which results in massive profit. Also the company has no investment in physical store but relies on online business hence, saving a lot to boot the profit.

Weakness

While the cost structure earns great profits, it is noted that this has affected Amazon.com in one way. Failing to balance between the expenses becomes a liability to the company. Besides not having a physical store, the company has spend a lot in streaming, movies and TV shows which should be account for.

Opportunities

Amazon.com already has a name to market itself. The company is a world-wide brand which has consumed the confidence of many people across its business territory. Source state that with future advancement in technology, the company will revolutionize the grocery shopping. The company should explore the opportunity of technology with advancement of robotics to improve its way of shopping cart. Amazon has also invested much in the massive production of electronics which is trending on the market today.

Case analysis part 2

Threats

Amazon still faces threats from other online shoppers like e-bay and Alababa. The best way to counter these threats will be to use strategies that will help in diversification of the market and winning of business territories.

MILES AND SNOW TYPOLOGY

Amazon.com has integrated miles and Snow typology in its business by focusing on the strategy, structure and processes. The three components have a strong relationship within the company hence making it a success. Amazon has an objective of maintaining customer's satisfaction in its business. The company has structured its business into three main areas, online retail, internet services and Kindle ecosystems. This focus is a strategy that beats other companies trying to compete with Amazon.com.

FINANCIAL ANALYSIS

Financially the company is at stable position which increases quarterly. While analyzing the sample data of revenue, net income and profit margin, the revenue dropped in quarter 1 of 2016 but increased drastically towards quarter 2 and 3. The profit margin of the company has always been high compared to the net income which is a success in the company. Also sources shows that the company's net sales increased by 29.2% between 2007 and 2008. While this is commendable, the company still has the problem of balancing the finances due to the free shipping costs which has increased the cost of sales thus affecting the income.

Case analysis part 2

The gross profit margin of Amazon was 23% in 2008 which is below eBay by a difference of 51%. This was caused by the company's high expenditure on the cost of sales which consumed approximately 70% of its sales. The company has a stable operating profit margin of around 4% compared to the competitor eBay which keeps fluctuating hence the growth of Amazon. The company has also maintained a positive cash flow this indicates that Amazon is able to pay short-term liabilities and operating expenses accordingly. The company expects to have a strong growth due to the low price strategy and free shipping.

INDUSTRY SPECIFIC STRATEGY

Product Life Cycle (ANSOFF matrix)

Product life cycle takes the ANSOFF matrix during analysis. This model defines stages in the product life cycle comprising of the product and market. The product goes through for stages the product development stage, market penetration, market development and diversification.

Applying this model weighs between two levers, market and product. The product undergoes development and diversification while market goes through development and penetration. The four factors are weighed on a graph. Amazon has used this model to compete by diversifying its products on the market which is not an easy go task for the upcoming companies. Amazon has worked on the marketing of its brand hence developing market circuits and thus it has penetrated different regions across the world. For any startup company to compete with Amazon.com, there is need for introduction to the market and getting people to learn of their products. This is very challenging since it will involve spending of a lot of funds instead of starting up the stock. This strategy has made Amazon.com to be at the leading in online retail market.

Case analysis part 2

At market penetration, Amazon competes by advertising, marketing, loyalty programs, expanding product and services with the current clients and pricing. To develop this market, Amazon.com focuses on selling existing products into the penetrated market. For this to happen, the company has to establish new development, define new channels, new packaging and outline new pricing. During product development, the company has always introduced new products into the market and diversifying by introducing this products in the existing market in the regions it operates.

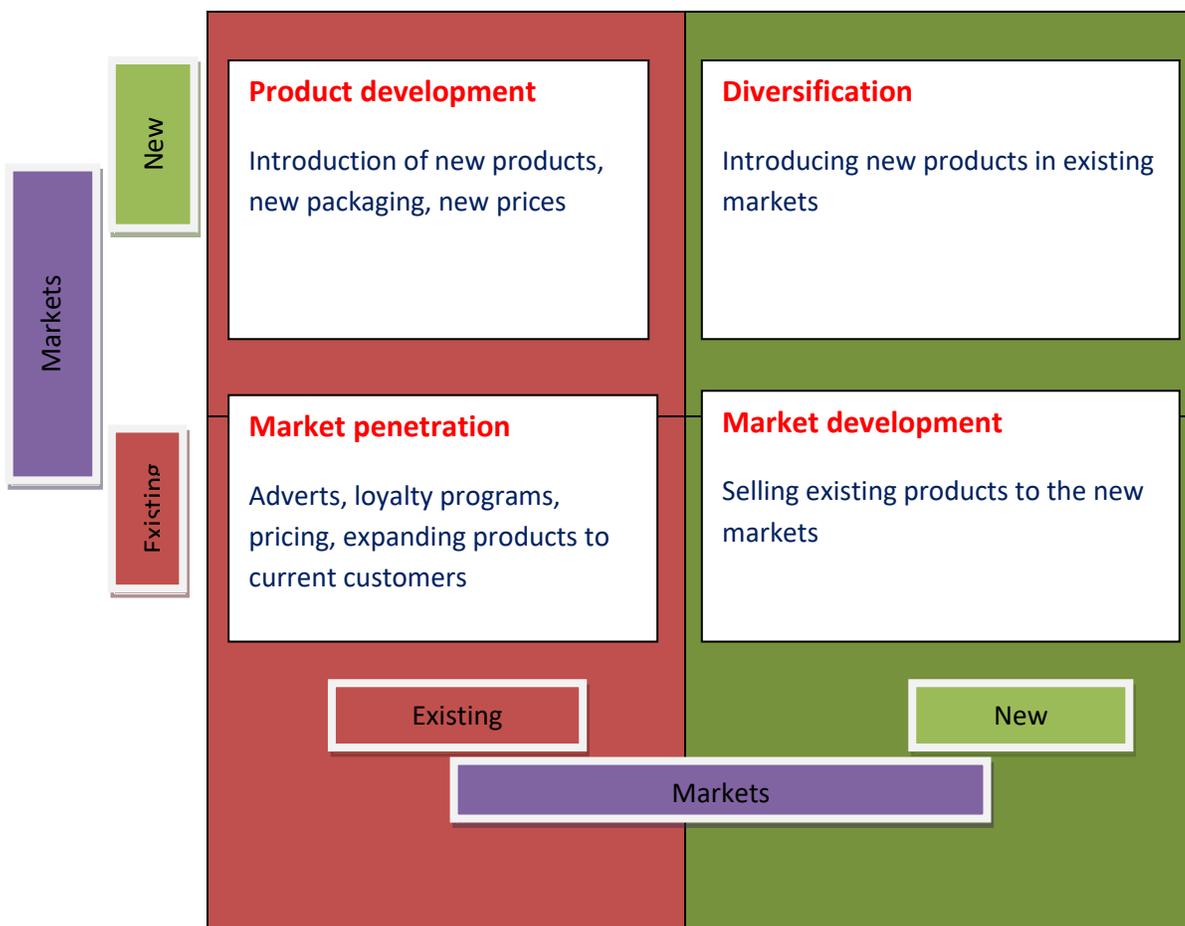


Fig 1: Amazon.com ANSOFF's matrix

Case analysis part 2

Spatial Matrix/Strategic Map

The matrix has two dimensions, the internal and external. The internal dimension in space matrix are competitive advantage (CA) and financial strength (FS) while the external dimension comprise of industrial attractiveness (IA) and environmental stability (ES). Amazon has been able to compete with this model such that it has the following financial positions; cash flow, earnings and returns on investment. The average weight of these factors is +2.7. the company has stability position of having very low competitive pressure of approximately -6. It also has low barriers of entering into market since it already established with an average score of -4 and high technological changes of approximately -1. In average the stability of the company is roughly -3.7. while analyzing the company in terms of external position, the competitive of the company is driven by market share, customer loyalty and technological know-how. The average weight of this dimension is approximately -1.3. the industrial position of Amazon.com is high with an average of +5.7 this value is an average of growth potential, financial stability and profit potential.

RECOMMENDATION

Looking at the performance of Amazon.com currently, it is a clear indication that the company will continue to grow and expand. Based on the first part of analysis of external factors, the company has a favorable platform of competing and dominating new markets. It is strategic for the company to explore new markets and expand the regions of operation.

In the second part of analysis of internal analysis, the company has a ground of competing and maintaining the leading position in the e-commerce business. The company is currently the leading in the online retail business. Amazon should maintain its marketing strategy and

Case analysis part 2

penetration of the new markets to maintain its position. Diversification in the service offerings and products will help the company improve the sales and profitability.

However, Amazon should evaluate comprehensively its cost of sales to avoid over expenditure like in the previous years. Using the matrixes discussed in this paper, the company has to make sure that the competitive strategies are well maintained to continue improving the sales and expanding its market.

Case analysis part 2

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