

## TEACHING NOTE

# Amazon.com, Inc.

## Case Overview

The case is written from the perspective of Jeff Bezos, CEO of Amazon.com, as he ponders the company's strategy over the next several years. The case begins by detailing Amazon's history, divided into its first (1995–2005) and second decade (2006–2016).

Amazon.com went live in 1995, and was an instant success with book lovers everywhere. The online startup set itself apart from other Internet merchants by pioneering one-click shopping, customer reviews, and order verification via e-mail. Next, Amazon executed a series of strategic alliances and acquisitions to rapidly expand its product and service offerings. In 2000, Amazon launched Marketplace, which is a platform on which independent third-party sellers can access Amazon customers globally. In 2005, Amazon launched its Prime membership service. Subscribers pay \$99 a year and receive free two-day shipping, as well as access to Amazon's video and music streaming services. Besides offering every imaginable product online, it sells its own line of consumer electronics such as tablets, e-readers, and voice-enabled wireless speaker such as Echo. Among them, the Kindle e-reader (launched in 2007) has transformed the publishing industry. Amazon holds two-thirds market share in eBooks and now sells more eBooks than print books. Launched in 2014, Echo is powered by Amazon's Alexa, an intelligent personal digital assistant that marks Amazon foray into augmented reality. Exhibit 2 in the case shows Amazon's key strategic initiatives and stock market valuation over the years.

Now carrying the moniker “the everything store,” Amazon has become the largest online retailer in the United States, with some 400 million items available, some 50 times the number sold by Walmart, the world's largest traditional retailer. Globally, only China's Alibaba is larger than Amazon. Besides offering a wide variety of products and services, Amazon also diversified geographically pretty much from the outset. In 1998, it added country-specific sites in the United Kingdom (amazon.co.uk) and Germany (amazon.de) to accommodate its growing popularity in Europe. French (amazon.fr) and Japanese (amazon.co.jp) Amazon sites debuted in 2000. Today, Amazon operates country-specific sites in more than a dozen countries, including in China (amazon.cn). Currently, Amazon is making a major push into India (amazon.in), where the domestic Flipkart—started by former Amazon employees—took an early lead.

In addition to diversification in products and services as well as geography, Amazon also vertically integrated. Created in 2006, Amazon Web Services (AWS) is a cloud-based computing service, including software applications, data storage, content delivery, payment and billing systems, and business

other applications. Today, AWS is the world's largest cloud-computing provider. It is Amazon's most profitable business endeavor. In 2016, AWS revenues were an estimated \$12 billion, but bringing in \$1 billion in profits. That is, AWS' contribution to Amazon's revenues is 9 percent, while its profit contribution is 74 percent. By developing its own streaming video content (such as the "The Man in the High Castle," an alternative history about the Axis winning WWII), Amazon is integrated into media production.

Besides offering same-day delivery of groceries in some metropolitan areas and testing drones for even faster distribution, Amazon launched AmazonCampus, a student-centered program. The goal of AmazonCampus is co-branded university-specific websites that offer textbooks, paraphernalia such as the ubiquitous logo sweaters and baseball hats, as well as ramen noodles! As part of this new campus initiative, Amazon offers its Prime membership to students at a 50 percent discount (\$49 a year) and guarantees unlimited next-day delivery of any goods ordered online, besides all the other Prime membership benefits (free streaming of media content, loaning one e-book a month for free, discounts on hardware, etc.). To accomplish next-day delivery, Amazon is building fashionable delivery centers on campus, university co-branded such as "amazon@purdue." Once a package arrives, students receive a text message and can then retrieve it via code-activated lockers or from Amazon employees directly. The on-campus delivery facilities also serve as student return centers.

With a market cap of some \$450 billion (in spring 2017), Amazon is one of the top-five most valuable technology companies in the world, besides Apple, Alphabet (Google's parent company), Microsoft, and Facebook. Over the last decade, Amazon's stock appreciated by some 2,000 percentage points, while the stock market overall (as proxied by the Dow Jones Industrial Average) grew only by 62 percentage points over the same time period.

Although Amazon is one of the largest technology companies globally in terms of its stock market valuation, several problems loom at the horizon. Amazon's annual revenues are some \$150 billion, but consistent profitability continues to elude the company. Moreover, as technology has evolved, traditional boundaries between hardware and software, products and services, and online and brick-and-mortar stores have become increasingly blurred. As a result, Amazon finds itself engaged in a fierce competitive battle for control of the emerging digital ecosystem, pitted against technology giants such as Apple, Alphabet, and Facebook. Moreover, in general retailing Amazon competes with Walmart and the Chinese e-commerce company, Alibaba. In data services and cloud computing, it competes with Microsoft, IBM, and others. Indeed, the list of Amazon's competitors keeps increasing rapidly, as this passage from its 2016 report makes clear:

Our businesses encompass a large variety of product types, service offerings, and delivery channels. . . . we face a broad array of competitors from many different industry sectors around the world [including]: (1) online, offline, and multichannel retailers, publishers, vendors, distributors, manufacturers, and producers of the products we offer . . . ; (2) publishers, producers, and distributors of physical, digital, and interactive media of all types and all distribution channels; (3) web search engines, comparison shopping websites, social networks, [and] web portals . . . (4) companies that provide e-commerce services . . . ; (5) companies that provide fulfillment and logistics services . . . whether online or offline; (6) companies that provide information technology services or products . . . ; and (7) companies that design, manufacture, market, or sell consumer electronics, telecommunication, and electronic devices. Another major threat is potential legal repercussions because of Amazon's ever increasing scale and scope. Amazon now accounts for roughly one-half of all Internet retail spending in the United States. In addition, with AWS, physical retail stores, and drone deliveries, Amazon is increasingly becoming a fully vertically integrated enterprise. Many argue that Amazon is much like a utility, providing the backbone for Internet commerce,

both in the business-to-consumer (B2C) as well as in the business-to-business (B2B) space. This paints a future picture in which rivals are depending more and more on Amazon's products and services to conduct their own business. Amazon's tremendous scope and scale can bring it increasingly into conflict with governments. Antitrust enforcers in the U.S. such as the Department of Justice might train their sights onto Amazon.

## Key Concepts

- Strategic leadership
- Competitive strategy
- Business models
- External analysis and competition
- Internal analysis and core competence
- Platform strategy
- Industry Convergence
- Corporate strategy
  - Diversification
    - Products and services
    - Geography
  - Vertical integration (VI)
    - Backward and forward
- Strategy implementation

## Suggested Discussion Questions

1. Describe Amazon.com as of the end of the case (spring 2017). What kind of company is Amazon.com? What is Amazon's business model?
2. Assess Amazon's resources and capabilities using the VRIO framework. Can Amazon gain and sustain a competitive advantage? Why or why not?
3. What is Amazon's core competency?
4. How is Amazon using its core competency in its diversification efforts? Amazon continues to spend billions on seemingly unrelated diversification efforts. Do you believe these efforts contribute to Amazon gaining and sustaining a competitive advantage? Why or why not?

5. Is AWS related to Amazon's core business? Why or why not? Some investors are pressuring Jeff Bezos to spin out AWS as a standalone company. Do you agree with this recommendation? Why or why not?
6. Perform a SWOT analysis for Amazon.
7. Which of its competitors does Bezos need to pay most attention to, and why? And how should he deal with them in terms devising Amazon's business strategy? Amazon.com is over 20 years old and it has \$135 billion in annual revenues. As an investor, would it concern you that Amazon.com has yet to deliver any consistent profits? Why or why not? How much longer do you think investors will be patient with Jeff Bezos as he continues to pursue billion-dollar diversification initiatives?

## Suggested Answers

1. Describe Amazon.com as of the end of the case (spring 2017). What kind of company is Amazon.com? What is Amazon's business model?

### BASIC ANSWER

In considering "classic" business models, Amazon combines a "shopkeeper" model of having a "location" on its website where it sells products at "retail" that it purchases at wholesale prices with "broker" and "subscription" models. The *broker* aspect relates to Amazon opening its "shop" to third party retailers for a fee, and the *subscription* aspect relates to Amazon offering Prime membership.

### BETTER ANSWER

A better understanding of Amazon's business model can be achieved by examining the why, who, and how of business models developed by Amit and Zott (2012), and a drawing by Jeff Bezos based on a "flywheel" concept from Jim Collins (2005).<sup>1</sup>

Beginning with "**who**", the main stakeholders for Amazon are sellers and customers. Sellers are interested in a larger market that is driven by more traffic to Amazon's website. Meanwhile, customers are interested in a combination of selection and low prices.

This leads to "**what**", or Amazon's ability to lower prices by having a low-cost structure (website and warehouses without stores) that feeds the customer experience and helps make it a preferred location for sellers. Additionally, Amazon is concerned about the customer experience and sends e-mails on the status of orders and manages shipping to customers.

Next, the "**how**" relates to growth, or additional offerings that are provided to customers through new products and services. Amazon Prime membership also has the twin advantages of smoothing Amazon's revenues and increasing customer switching costs.

Finally, the “why,” Amazon clearly enjoys growth or increasing revenue. However, while it offers lower costs, it struggles to be profitable as Bezos’ concept does not have profit coming out with continued growth driven by reinvesting revenues.

## **2. Assess Amazon’s resources and capabilities using the VRIO framework. Can Amazon gain and sustain a competitive advantage? Why or why not?**

**Valuable:** Do the resources help Amazon to increase the perceived value of its offering in the eyes of the consumers?

The resources that Amazon has at its disposal can certainly be deemed as valuable from the consumer’s perspective. The company’s e-commerce activities provide consumers with everything they could possibly want/need in a cost effective and convenient manner, perhaps best exemplified by Amazon Prime and the fact that consumers are willing to pay a subscription fee for access to expedited shipping, reduced shipping fees, and efficient access to content, goods and services that are otherwise obtained elsewhere, albeit not via a fully integrated e-commerce platform. The same can be said of the company’s AWS unit in its ability to meet the cloud computing needs of individuals and businesses alike.

**Rare:** The number of firms who possess the appropriate resources are less than the number of firms required to produce a perfectly competitive firm environment.

The resources that Amazon has at its core are also rare. Not only are many of the resources at Amazon the culmination of being the first company to make a success out of Internet e-commerce on scale, the sheer size of Amazon and the reach the company has developed with respect to the services it offers means that few companies have the ability to operate and offer value to consumers the way that Amazon does. As the case mentions, Amazon has clout among the biggest publishing houses, for example, primarily because of the resources Amazon has with respect to publishing and selling books to consumers. Very few companies can leverage resources on this scale to affect the impact that Amazon can have on the pricing of a book. Again, the same can be said with AWS: there are not many companies with the ability to offer the cloud-computing services that AWS offers to consumers.

**Costly to imitate:** A company seeking resources similar to an incumbent are unable to develop or buy it at a comparable cost.

The state of technology and its rapid evolution means that Amazon’s resources are not necessarily costly to imitate. Perhaps the best example of this is the AWS unit: despite the unit being the company’s shining revenue star among its business units overall, companies with deep pockets are able to compete very readily with Amazon (think Microsoft’s Azure, Google’s Cloud, as well as Verizon, Cisco, IBM, VMWare, and so forth). Similarly, with the rise of Alibaba and its traction in China with e-commerce, it is not inconceivable that Alibaba one day becomes the player that erodes Amazon’s dominance of the e-commerce space. On the other hand, Amazon’s ability to break into the hardware space with the Kindle and (failed) smartphone is indicative that Amazon, too, can gain the resources sufficient to compete for consumer dollars with traditional market leaders like Apple.

**Organized:** A company with a valuable, rare, and unique resource is organized effectively to exploit the resource for competitive advantage.

The unique way that Amazon grew and its ability to adapt to the changing technology environment means that the company is organized to leverage its resource towards competitive advantage. The company has been very quick to disrupt itself, as evidenced by its product and service innovation through the 1990s and early 2000s. Further, its ability to identify opportunities for strategically appropriate acquisitions is indicative of a company that is inherently capable of organizing to exploit resources for competitive advantage. This is perhaps best evidenced by the ability for Amazon to weather the tech bubble burst in 2000–2001 and the financial crisis in 2008–2009.

**Overall**, the VRIO framework indicates that Amazon has a competitive advantage, but it needs to remain vigilant to sustain any advantage. Current trends indicate a move toward significant industry convergence, as Amazon, together with Google, Microsoft, Walmart, and Alibaba compete directly against Amazon in multiple product and service markets. For example, Amazon.com released the Kindle Fire, a tablet version of its popular e-reader in 2011, entering the mobile device market once dominated by Apple. It now offers a full line of digital content (books, movies, and video) to compete with iTunes, while challenging Google in the development of web and cloud-based services. Google, which has traditionally focused on software, the web/cloud, and its Android operating system, also recently entered (and exited) the mobile device market with Motorola Mobility. Walmart, with its existing supply chain and pricing power in the retail market is focusing on its e-commerce business to steal Amazon's online retail sales.

### 3. What is Amazon's core competency?

Amazon's core competency relates to managing the “customer experience” that is linked to its activities and performance, as well as continued investment in resources and capabilities; see figure below.

Amazon attracts customers with lower prices on a wide selection of goods that are then leveraged through multiple activities, including: collecting reviews from prior customers, operating warehouses to ensure accurate orders and quality of packaging, sending customers e-mails on shipping status and tracking information, data on customer purchases to make additional recommendations, enabling returns through its warehouses.

Amazon's competitive advantage then relates to lower costs from eliminating “stores” and operating only a website and warehouses. The lower costs then feeds into attracting more customers that provide Amazon economies of scale, and more customers also attracts additional sellers that provide Amazon economies of scope.

Revenues are then reinvested by Amazon to develop additional resources (e.g., propriety content, such as *Transparent*; Amazon Echo) and capabilities (e.g., Amazon Prime).

### 4. How is Amazon using its core competency in its diversification efforts? Amazon continues to spend billions on seemingly unrelated diversification efforts. Do you believe these efforts contribute to Amazon gaining and sustaining a competitive advantage? Why or why not?

There are multiple ways to answer this question, and one approach is to apply the core competence-market matrix developed by Hamel and Prahalad (1994), see figure. Below is a discussion of different ways that Amazon is diversifying for each category.



**New Core Competence/Existing Market:** Amazon could be viewed as building new core competencies to protect and extend its current market position in retail. For example, Amazon continues to adapt how it interacts with customers. Specifically, following Apple's introduction of Siri with its iPhone 5 in 2011, Amazon saw that digital assistants could change how people interacted with information and made purchases leading it to release the Amazon Echo in 2015. Instead of having to go to a website and using a graphical interface, customers can now order products from Amazon using natural language.

**New Core Competence/New Market:** Amazon could be viewed as building a new core competence and market with its move into Amazon Prime Video and developing its own content with shows, such as *Transparent*. The new competence and market relates to developing and providing streamed entertainment.

**Existing Core Competence/New Market:** Amazon's move into web services and shipping redeploys Amazon assets, as well as expands it internationally. First, Amazon's move into web services uses its core competence in servers that are developed to handle peak shopping demand to provide web services for other organizations. Amazon Web Services (AWS) provides approximately 10 percent of Amazon's revenues, and this additional source of revenues lowers Amazon's overall cost for providing the infrastructure needed to operate its retail website by generating revenue from excess capacity built to satisfy peak shopping demand (Nov–Dec). Second, to maintain control over its customers' experience and lower costs, Amazon is moving into shipping. This also relates to vertical integration (diversification). Finally, Amazon can extend its existing capabilities to new international markets.

**Existing Core Competence/Existing Market:** Amazon continuing to deploy additional warehouses, and expand its product offerings relates to leveraging its current core competence in its existing market. Another possible example is Amazon using its relationship with sellers to move into Amazon branded products (e.g., batteries) that lower costs and allow Amazon to retain additional revenue.

**5. Is AWS related to Amazon's core business? Why or why not? Some investors are pressuring Jeff Bezos to spin out AWS as a standalone company. Do you agree with this recommendation? Why or why not?**

**Amazon Web Services (AWS) core versus non-core:** Different perspectives are possible . . .

*Yes*, Amazon's customer experience and revenues are dependent on its website being available making web services core to its operations. Additionally, AWS enables smaller retailers to access capabilities they otherwise could not afford and it facilitates third party sales.

*No*, the capabilities needed for retail are different from Information Technology. Further, the growth of AWS is likely restrained by its ties to Amazon. For example, competitors are less likely to use AWS and subsidize Amazon's costs, and Amazon is less likely to develop services that it does not use itself.

**AWS Spin-off:** This is a complex situation involving trade-offs and multiple perspectives.

Amazon is primarily a website and focused on its customer experience. It is unlikely that Amazon could operate with its servers completely outsourced. The reliability of Amazon's website in handling customer ordering, addresses, payments, and returns is important to its retail customers. This is also

likely why there is demand by other firms for Amazon to provide hosting for other companies. The restriction Amazon's ownership of AWS has on its growth likely pales in comparison to the potential damage from problems with how Amazon handles customer information. Further, Amazon's ownership has not kept competitors from using the service. For example, Apple uses Amazon's cloud services.<sup>2</sup> Still, investors like "pure plays," especially when businesses have radically different margins, growth rates, and growth prospects, as investors can diversify their risk by investing in different firms.

If a spin-off is considered, it becomes important for the structure to be appropriate. For example, Amazon acquired Zappos in 2009, but it operates as a subsidiary of Amazon that is allowed to operate as an independent brand. Certainly, being able to organize and adapt an organization to best serve its customers was intrinsic to Zappos' ability to sustain its competitive advantage. This means that how a spin-off of AWS is organized and its relation to Amazon are important.

NOTE: It may also help to discuss what type of diversification Amazon displays, see figure.

In 2016, Amazon represented a firm with related diversification with two-thirds of its revenues coming from the United States (geographic) and two-thirds of its revenues coming from retail sales (market).<sup>3</sup> Meanwhile, AWS represented approximately 10 percent of Amazon's revenues in 2016. Whether AWS shares competencies (related-constrained versus related-linked) is debatable. However, while AWS could exist without Amazon, it is unlikely that Amazon could completely outsource its online services.

## 6. Perform a SWOT analysis for Amazon.

**Note:** There are a variety of online resources for SWOT analysis of Amazon, and the below answers are representative and focus on major considerations.

### *STRENGTHS*

- **Brand**—Amazon is synonymous with online purchases, and it has a reputation for good customer service.
- **Low-cost, wide product selection**—Amazon's scale reinforces its low costs by providing bargaining power.
- **Efficient logistics and distribution**—Amazon has warehouses that have been geographically placed to focus on efficiency and keeping costs low, and this has enabled it to gain third party sales.
- **Economies of scope**—Amazon has used its IT skills to generate consulting revenue and excess server capacity to provide cloud computing services.
- **Innovative**—Amazon has demonstrated an ability to disrupt itself by focusing on customers.

### *WEAKNESSES*

- **Low margins**—Amazon sells its best-selling Kindle devices and other products near cost to gain market share. For the Kindle, Amazon anticipates revenues from people buying content for the devices from Amazon.



- **Negative publicity**—Amazon has been criticized for retail job losses and for work conditions in its warehouses.
- **Third-party merchants**—Many of the products sold on Amazon are by other retailers, but Amazon's reputation is hurt when customers have bad experiences.
- **Low profits**—While growing revenue quickly, Amazon has low profitability.

## *OPPORTUNITIES*

- **Additional branded products**—Amazon could release additional products under its brand.
- **Amazon Prime**—Amazon has the potential to convert most of its customers from a transaction business model to a subscription model with more consistent revenue by creating switching costs.
- **Amazon Echo**—Amazon's new in-home product with Alexa, its digital assistant, offers new ways to interact with customers and increase sales.
- **International expansion**—Two thirds of Amazon's revenue is still from the U.S. when the U.S. represents a smaller share of global gross domestic product, making international expansion a growth opportunity.

## *THREATS*

- **Online security**—Amazon stores shoppers' personal information, such as payment information, making it a target for hackers.
- **Competition**
  - **Technology Titans**—Traditional boundaries between Apple, Alphabet, Amazon, and Microsoft are increasingly blurring, leading these technology powerhouses into direct competition.
  - **Alibaba**—Alibaba has a strong position in China and business model of acting as a broker between buyer/sellers and has lower infrastructure costs (no warehouses/shipping) than Amazon.
  - **Walmart**—In 2016, half of Walmart's sales were online and the traditional retailer is increasingly becoming an online presence that competes with Amazon. Additionally, Walmart already has an international presence potentially giving it brand advantages.
- **Tax legislation**—Amazon will start collecting sales tax and have to account for different tax rates between states, counties, and cities.

### **7. Which of its competitors does Bezos need to pay most attention to, and why? And how should he deal with them in terms devising Amazon's business strategy?**

There are multiple competitors in e-commerce and the cost to entry due to competing cloud services is relatively low. Among the most prominent competitors in the United States are auction sites such as Ebay, as well as established grocery stores and retailers. Internationally, China's Alibaba is

the biggest competitor to Amazon, followed by other localized companies such as Flipkart in India. Understanding what competitors Amazon needs to be most concerned with requires understanding Amazon's business model.

Amazon primarily operates on a direct-to-consumer online model that relies on low costs to increase customer traffic that in-turn facilitates increased sales. Amazon's strategy relies on providing the same or similar value for consumers by delivering products and services at a lower cost than its competitors. This approach is best exemplified by the way Amazon sells its Kindle tablet and Amazon Echo. For example, Amazon intentionally sells the Kindle at near breakeven prices with the goal of attracting customers to Amazon.com to purchase online content. As it adds tablet functionality to its Kindle devices, Amazon is exerting a steady downward price pressure on the tablet market. Few, if any, other device makers have the advantage of Amazon's vast online marketplace (and revenue stream) to subsidize their manufacturing costs. In the near term, this makes firms targeting online retail sales to customers at lower costs Amazon's primary competitors, namely Alibaba and Walmart.

**Alibaba** operates a business model that resembles eBay (as opposed to Amazon) by offering (exclusively) a platform for retailers. It derives revenue primarily from online marketing services and commission on subsequently sold merchandise. In other words, Alibaba is asset-light given that it does not involve itself in procurement and storage of inventory and delivery of orders received. This removes warehouses from its value chain, and ensures low cost of operations for Alibaba that relate to higher margins it can generate.

**Walmart** has significant purchasing power, and Amazon does not always have the lowest prices. In some key product categories, competitors are five percent to 10 percent cheaper than they are on Amazon, excluding shipping and taxes. If Walmart is able to fulfill customer online orders with in-store pick-up, then Walmart has an opportunity to undercut both Amazon's cost and convenience.

**8. Amazon.com is over 20 years old and it has \$135 billion in annual revenues. As an investor, would it concern you that Amazon.com has yet to deliver any consistent profits? Why or why not? How much longer do you think investors will be patient with Jeff Bezos as he continues to pursue billion-dollar diversification initiatives?**

Jeff Bezos' original plan for Amazon was to reinvest revenues into growth, or to not be profitable. As Amazon continues to grow, it will be able to leverage its relationship with customers (e.g., Prime and Alexa) into higher profit times (e.g., Amazon branded products). For example, Amazon can track the sales of third party retailers and then develop an Amazon branded version for hot-selling items.<sup>4</sup> Still, investors likely see a limit to this growth. For example, in 2016, 43 percent of online sales went through Amazon.<sup>5</sup> As growth plateaus, investments made to maintain it would be able to shift to increase profits. Still, as Amazon achieves a larger share of e-commerce it will attract competitors and potentially the attention of regulators.

With respect to competition, Microsoft, Walmart, and Alibaba are each moving into areas of strength for Amazon. For example, Microsoft is providing more differentiated (and profitable) services with its Azure cloud services. Walmart has increased its online presence, including the purchase of Jet.com, and in 2016 half of its sales were online.<sup>6</sup> By having both a system of warehouses and physical stores, Walmart is able to increase customer convenience by allowing local pickup of orders without having to wait for delivery. Finally, Alibaba takes a different approach to e-commerce that eliminates its need to maintain warehouses by simply brokering sales between a seller and customer through its website.

With respect to regulation, Amazon faces the threat of increased government oversight the more it grows. This has already happened with Amazon now collecting sales tax for the majority of U.S. states. It also represents a looming problem as different nations have different approaches to regulation. For example, India limits foreign ownership of e-commerce to a minority stake, and the European Union (EU) has strict rules on customer data privacy<sup>7</sup> that Amazon needs to incorporate into its practices. Further, the EU will likely examine Amazon along multiple dimensions, including how it handles and pays tax.<sup>8</sup>

## Case Take Aways

- Competition requires firms to continually adjust.
  - Amazon must constantly reinvent itself and its offerings. This involves finding new products, vendors, and market opportunities.
  - Amazon also needs to reassess its existing business, and this may lead to the spin-off of Amazon Web Services.
- Take care of your customers or someone else will.
  - Under Bezos, Amazon has benefitted from an largely unrelenting focus on customers that has enabled Amazon to move into new areas with Prime membership and Amazon Echo.
- Be prepared to be copied.
  - Jet.com was founded by Marc Lore who ran Diapers.com that was acquired by Amazon.com. After working at Amazon.com, Marc went on to found Jet.com based on a subscriber model (i.e., Amazon Prime) and Jet.com was subsequently acquired by Walmart.com.
  - Flipkart.com was founded in India by former Amazon employees.
  - Alibaba.com was founded in China by Jack Ma after convincing friends to invest in an online marketplace.
- It is a marathon and not a sprint.
  - Amazon has been operating over 20 years, and it has survived the dot.com bust (2000–2001) and Great Recession (2008–2009) in large part from Jeff Bezos re-investing in Amazon as a business.
  - Jeff Bezos is taking a very long view.

## Additional Resources

### 1. Articles

- For background on external pressures Amazon is facing from competitors and regulators, see the *Economist*: <http://www.economist.com/news/leaders/21719487-amazon-has-potential-meet-expectations-investors-success-will-bring-big>

- For a discussion of the risks of Amazon switching from a focus on helping customers to profiting from them, see the *Economist*: <http://www.economist.com/news/leaders/21604550-it-has-upended-industries-and-changed-way-world-shops-it-should-beware-abusing>
- For a discussion of why “better” may be more important than “cheaper”, see a discussion of fashion’s war with Amazon: <https://www.businessoffashion.com/articles/opinion/how-retail-stores-can-rival-amazon-doug-stephens>
- For a summary of Amazon 20 years after its IPO, see: <http://www.seattletimes.com/business/amazon-went-public-in-1997-and-changed-how-we-live/>
- Amazon and Shipping:
  - Amazon loses money on shipping, or its costs exceed what it charges, see: <https://www.geekwire.com/2017/true-cost-convenience-amazons-annual-shipping-losses-top-7b-first-time/>
  - Competition keeps Amazon from rising free-shipping order thresholds, see: <http://www.cnn.com/2017/05/09/amazon-fires-back-at-wal-mart-lowering-free-shipping-threshold-to-25.html>
- 2016 Amazon Prime members outnumber non-prime customers, see: <http://fortune.com/2016/07/11/amazon-prime-customers/>

## 2. Videos

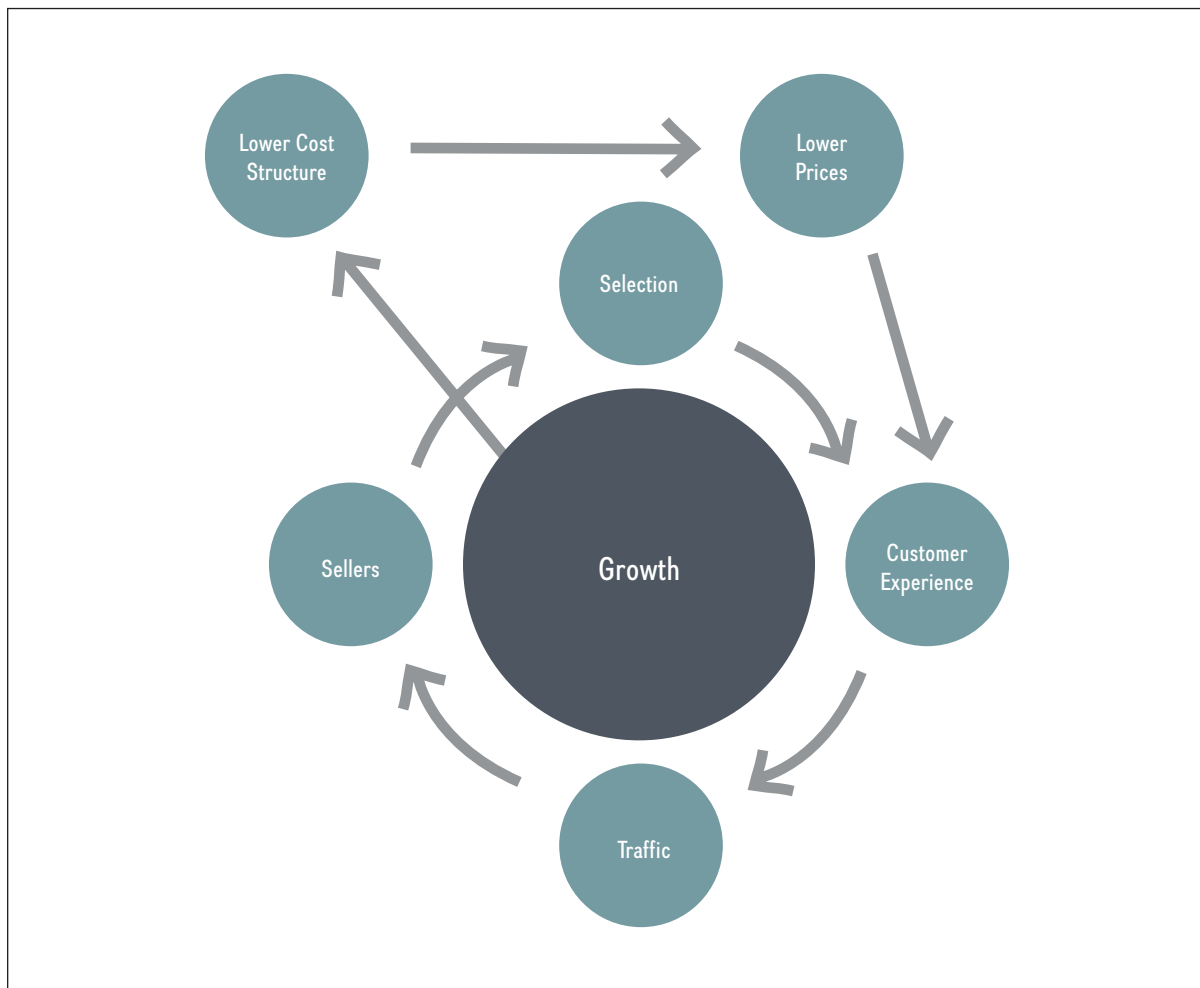
- Amazon’s channel on YouTube: <https://www.youtube.com/user/amazon>
- Amazon Go, or potential move into retail locations (1:49 min): <https://www.youtube.com/watch?v=NrmMk1Myrxc>
- Visual summary of how products arrive at Amazon’s warehouses and then are shipped to customers (2:54 min): <https://www.youtube.com/watch?v=3eQAFVetNGI>
- Amazon warehouse robots (2:26 min): <https://www.youtube.com/watch?v=UtBa9yVZBJM>
- Jeff Bezos Interviews:
  - 1997: Interview outlining why Jeff Bezos founded a bookstore (5:39 min): <https://www.youtube.com/watch?v=rWRbTnE1PEM>
  - 2000: Humorous take Jeff Bezos and Amazon (5:29 min): <https://www.youtube.com/watch?v=MvuJCeV3K0o>
  - 2010: CBS’s Charlie Rose interview with Amazon CEO Jeff Bezos discussing the Kindle (6:32 min): <https://www.youtube.com/watch?v=fAo0IfOCevA>
  - 2014: Jeff Bezos discussing Amazon’s experimentation that drives both success and failure (1:56 min): <http://www.businessinsider.com/jeff-bezos-amazon-failures-2014-12>
  - 2017: *60 Minutes* interview summarizing Amazon operations (9:11 min): <https://www.youtube.com/watch?v=zXzcHyYDLLE>

EXHIBIT TN-1 The Why, What, Who, and How of Business Models



Source: Rothaermel, F.T. (2018), Strategic Management, 4th edition. Burr Ridge, IL: McGraw-Hill.

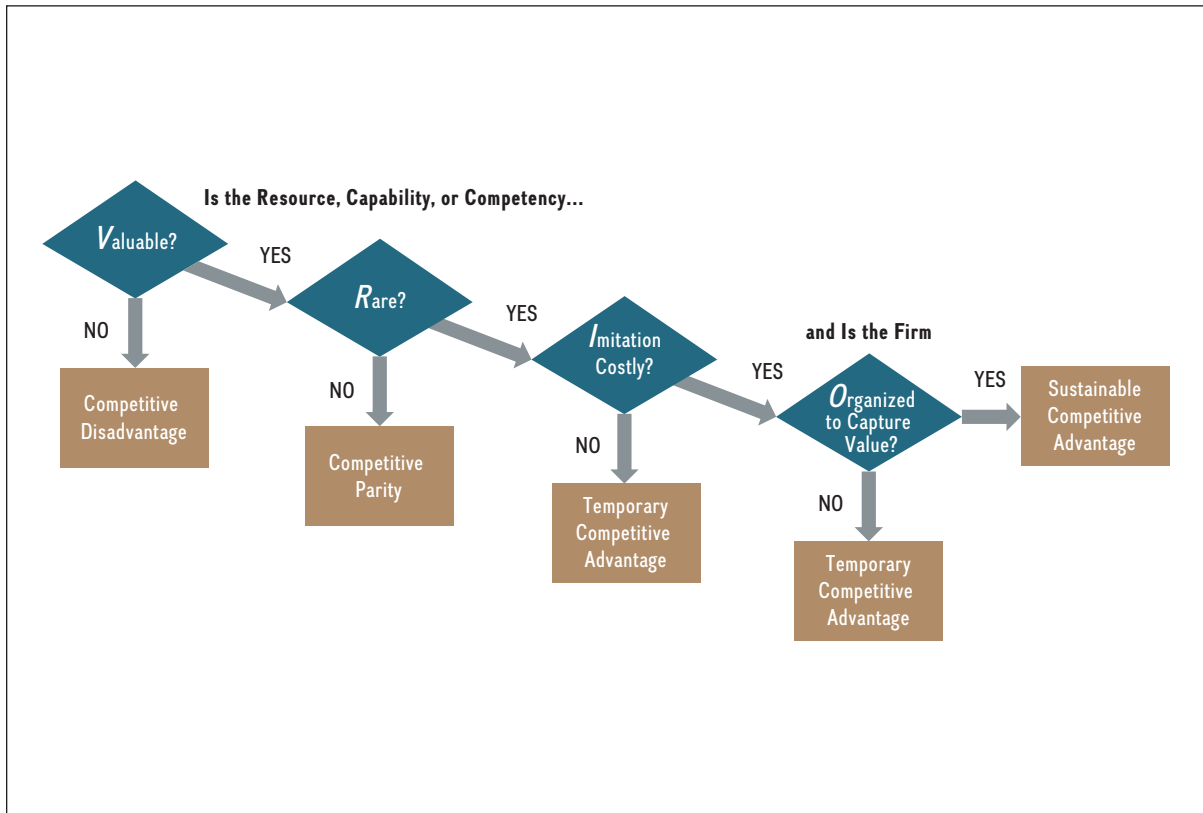
EXHIBIT TN-2 Jeff Bezos' Sketch of Amazon's "Flywheel" Business Model



Source: Adapted from A. Tonner, "The 1 Key to Amazon.com Inc.'s Success That No One Talks About (but Everyone Should)," *The Motley Fool*, February 19, 2016.

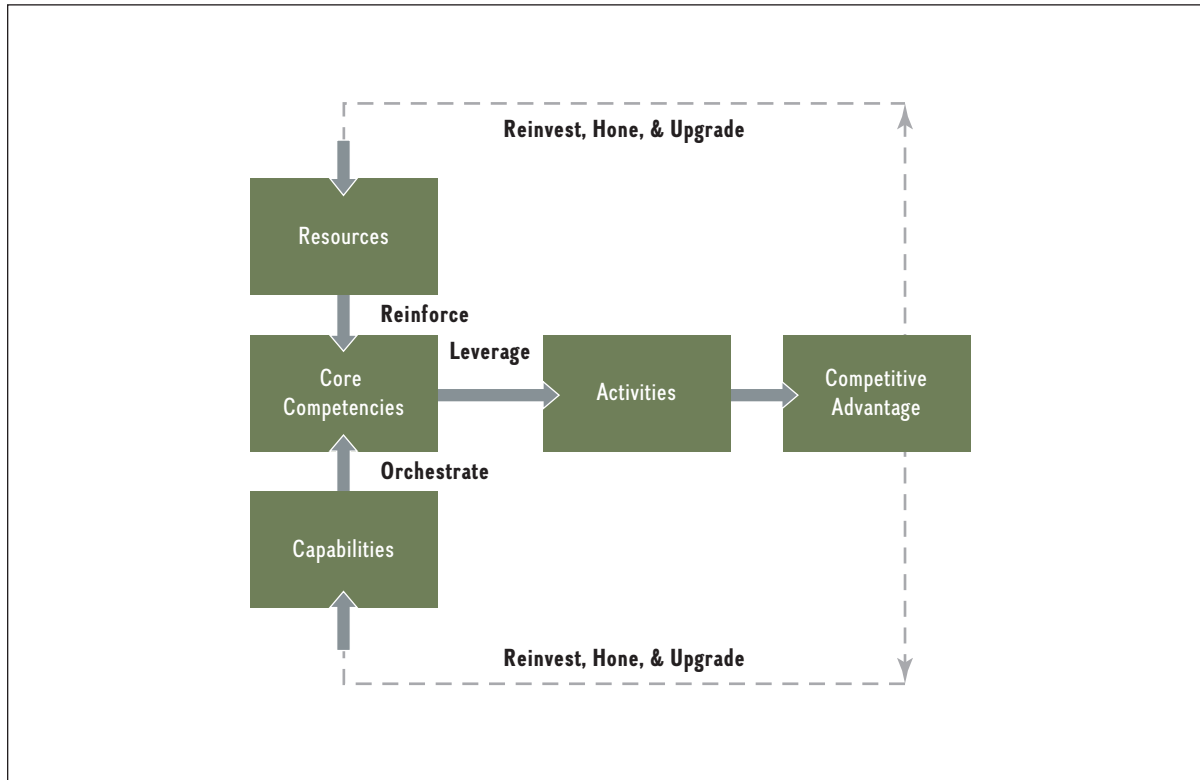


EXHIBIT TN-3 Applying the VRIO Framework to Reveal Competitive Advantage



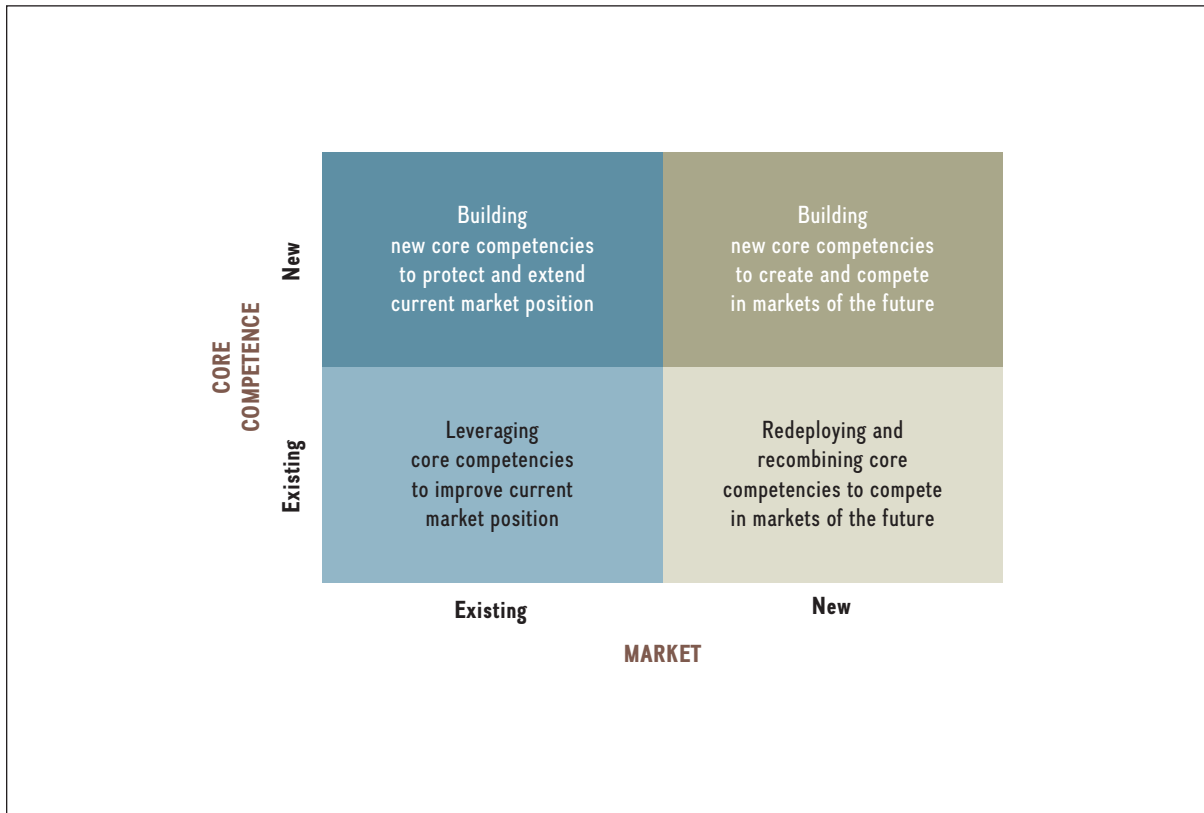
Source: Rothaermel, F.T. (2018), Strategic Management, 4th edition. Burr Ridge, IL: McGraw-Hill.

**EXHIBIT TN-4** Linking Core Competencies, Resources, Capabilities, and Activities to Competitive Advantage and Superior Performance




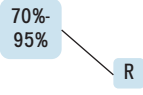
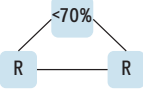
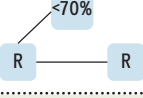
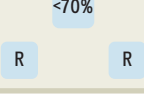
Source: Rothaermel, F.T. (2018), Strategic Management, 4th edition. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-5 The Core Competence-Market Matrix



Source: Rothaermel, F.T. (2018), Strategic Management, 4th edition. Burr Ridge, IL: McGraw-Hill.

EXHIBIT TN-6 For Main Types of Diversification

Revenues from Primary Business	Type of Diversification	Competencies (in products, services, technology or distribution)	Examples	Graphic
>95%	Single Business	Single business leverages its competencies.	Birkenstock Coca-Cola Facebook	
70%–95%	Dominant Business	Dominant and minor businesses share competencies.	Harley-Davidson Nestlé UPS	
<b>Related Diversification</b>				
	Related-Constrained	Businesses generally share competencies.	ExxonMobil Johnson & Johnson Nike	
<70%	Related-Linked	Some businesses share competencies.	Amazon Disney GE	
	Unrelated Diversification (Conglomerate)	Businesses share few, if any, competencies.	Alphabet Berkshire Hathaway Yamaha	

Note: R = Remainder revenue, generally in other strategic business units (SBUs) within the firm.

Source: Rothaermel, E.T. (2018), Strategic Management, 4th edition. Burr Ridge, IL: McGraw-Hill.

## Endnotes

- 1 J. Collins, "Level 5 leadership: The triumph of humility and fierce resolve," *Harvard Business Review*, 83(7) (2005) 136.
- 2 <http://readwrite.com/2014/08/26/apple-icloud-amazon-web-services-hosting/>, last modified August 26, 2014.
- 3 <https://revenuesandprofits.com/amazon-revenues-profits-analysis-2017-update/>, last modified May 18, 2017.
- 4 <https://www.bloomberg.com/news/articles/2016-04-20/got-a-hot-seller-on-amazon-prepare-for-e-tailer-to-make-one-too>, accessed June 14, 2017.
- 5 <http://www.businessinsider.com/amazon-accounts-for-43-of-us-online-retail-sales-2017-2>, last modified February 3, 2017.
- 6 [https://www.nytimes.com/2017/05/18/business/walmart-online-sales-jump-63-percent.html?\\_r=0](https://www.nytimes.com/2017/05/18/business/walmart-online-sales-jump-63-percent.html?_r=0), last modified May 18, 2017.
- 7 <https://aws.amazon.com/compliance/eu-data-protection/>, accessed June 14, 2017.
- 8 <https://www.theguardian.com/technology/2014/jul/06/google-amazon-europe-goes-to-war-power-digital-giants>, last modified July 6, 2014.