

**TEACHING NOTE****Amazon.com, Inc.****Structure of the Case**

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. At one point, Bezos believed there was room in the marketplace for the Kindle as a dedicated e-reader alongside tablets and laptops. Since its introduction in 2010, however, Apple's iPad has become the all-in-one vehicle for digital content and competition in the mobile device industry has risen sharply. Meanwhile, traditional boundaries between hardware and software, products and services, and online and physical stores have become increasingly blurred in an epic battle for control of the digital ecosystem. The case provides information on the historical background and competitive positioning of several of the main competitors in the mobile technology industry.

Jeff Bezos started Amazon.com as an online bookstore in 1995 with nearly instant success. The company set itself apart from the outset by pioneering such features as one-click shopping, customer reviews, and order verification via e-mail. By the time it went public in May 1997, Amazon had already earned \$15.6 million in revenue, far exceeding even its largest physical competitors. Amazon expanded both its international presence and range of product offerings through a series of acquisitions and alliances over the next several years. After a brief setback in 2001 (due to the bursting of the dot.com bubble), Amazon resumed its proliferation of retail products and online services. The Kindle, released in 2007, represented the company's first foray into hardware development. Sold at near breakeven prices, the Kindle line has fueled the popularity of electronic books and driven increasing numbers of customers to the online store to purchase content. Amazon released the Kindle Fire, a tablet version of the e-reader device, in 2011. Amazon's current product and service mix includes its online wholesaling, retailing and advertising, Amazon Prime (a premium subscription service), smart devices (tablet, phone, and TV), online publishing and content, and a full contingent of cloud-based services.

Apple was the first to market with both the iPhone (2007) and the iPad (2010), giving it a substantial lead in consumer awareness and loyalty. As other competitors have launched copycat devices, however, Apple's market share has been dropping. However, with the release of the latest iPhone, Apple has reestablished itself as the leader in the hardware space. Apple's main competitive advantage lies in application development and other complementary products, among them Apple TV and the pending smartwatch. The iTunes Store is the world's largest music vendor and accounts for approximately 10 percent of Apple's revenue. After an early period when Apple carried only Apple content in its online store, both iTunes and Amazon now carry cross-platform content.

Google started as a search engine but has expanded into online advertising, online retail, cloud computing, mobile gadgetry, and even communications infrastructure. It acquired the Android open-source mobile operating system in 2005. The first Android-based phone was the HTC Dream phone, released in 2008, followed two years later by the Nexus One (made by Google with HTC as its manufacturing partner). By 2012, the Android OS was employed by three out of four phones worldwide, the most popular of which has been the Samsung Galaxy line. Google acquired Motorola Mobility for \$12.5 billion in 2012, with plans to maintain it as an independent subsidiary. However, Google exited the phone hardware business just 22 months later by selling the unit to Lenovo, but keeping the intellectual property that was part of the acquisition. After Apple released the iPad in 2010, Google quickly scaled up the Android OS for use in tablets in conjunction with hardware manufacturers like Samsung. Android-based tablets tend to be smaller and cheaper than their Apple counterparts, as well as more customizable to user specifications. As a result, their popularity with consumers is rapidly increasing. Google has complemented this success with the release of their own Chromebook product, a cloud-based tablet that has the basic functionality of a laptop. The company is currently rolling out its Google Fiber, a high-speed fiber optic play designed to make available high-speed Internet available at a lower cost.

Facebook is the foremost social networking sight on the planet, with over 1 billion users. Beyond the social platform, Facebook has been making a push into the realm of advertising, traditionally the domain of Google. One particular area that Facebook has excelled at is mobile advertising, where the company generates over 60 percent of its total \$3 billion ad revenue. The company has complimented this and its social platform with expansion via acquisition. Notably, this has included the acquisition of the messaging app WhatsApp and an attempted acquisition of SnapChat. Facebook is also making a push into e-commerce, another means by which to complement its advertising revenue. Finally, in the hardware space, the company has acquired a virtual reality hardware manufacturer and partnered with HTC in 2014 to produce the “Facebook phone,” a device built around the Android-based Facebook app.

Finally, Alibaba has risen to the fore as a force to be reckoned with in terms of e-commerce. Famous for having the largest IPO in history, the company is solely based in China although it cannot be ruled that out the company will expand internationally in the near future. The company has tremendous popular wholesale and retail platforms for e-commerce in China and has its own pay service designed to engender confidence in transacting online. Not only is Alibaba competing with Amazon’s traditional dominance of e-commerce online, it is also set to square off with Amazon with respect to cloud services. Alibaba has a nascent service around cloud computing and Internet infrastructure which is growing particularly quickly in China.

With these major tech players all competing in multiple areas with each other, the case closes with the issue of where to next for Bezos. Which of these areas represent the appropriate strategic focus at a corporate and business level for the medium to long term, and how might Bezos mitigate the short-term pressure to become profitable, and the anticipation that AWS may become the center of attention for a spin off at the pressure of investors?

## Suggested Questions

### *ANALYSIS: FOCUS ON EXTERNAL AND/OR INTERNAL ENVIRONMENTS*

1. Assess Amazon's resources and capabilities using the VRIO framework. Can Amazon gain and sustain a competitive advantage? Why or why not?
2. Perform a SWOT analysis for Amazon.com. Pay particular attention to industry convergence. What are the strategic implications for Amazon?

### *FORMULATION: FOCUS ON BUSINESS, CORPORATE, AND/OR GLOBAL STRATEGY*

3. Which business strategies and business models are being employed by the major competitors in this case? Which are most successful, and why?
4. Formulate a business strategy and business model that would allow Amazon to become and remain profitable.
5. What are the implications of your strategy formulation at the business level for Amazon's corporate strategy?

### *IMPLEMENTATION: FOCUS ON RECOMMENDATIONS AND HOW TO EXECUTE THEM*

6. How should Jeff Bezos go about implementing any changes to the business and corporate strategy recommended earlier? What changes to structure and process need to take place?

## Suggested Answers

### *ANALYSIS: FOCUS ON EXTERNAL AND/OR INTERNAL ENVIRONMENTS*

1. 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 with 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 to possess the appropriate resources as incumbents do 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, and 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 and remain entrenched as a technology leader capable of offering consumers added value.

Overall, the VRIO framework indicates that Amazon can indeed gain a competitive advantage, but needs to be vigilant in order to sustain any advantage. Current trends indicate a move toward significant industry convergence, as Amazon, together with Google, Apple, Facebook, and Alibaba fill in the gaps to compete directly against one another 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. Facebook, with its dearth of social data, is leveraging its social platform to generate ad revenue and stealing market share from Google, the traditional leader in advertising online. The company also has plans to leverage e-commerce services to generate yet further ad revenue. Alibaba is not only competing with Amazon in terms of e-commerce, it is also competing with Amazon, Google, and Apple in the space of cloud-based computing.

**2. Perform a SWOT analysis for Amazon.com. Pay particular attention to industry convergence. What are the strategic implications for Amazon?**

*Students should be able to perform a SWOT analysis to identify some strategic implications as to how Amazon can use strengths (these and others) to capitalize on opportunities, and nullify threats. Similarly, students need to assess how Amazon can circumvent weaknesses preventing the company from taking advantage of opportunities, or mitigate any affects that threats may have on the company's competitive advantage. (See Exhibit TN-1.)*

**FORMULATION: FOCUS ON BUSINESS, CORPORATE, AND/OR GLOBAL STRATEGY**

**3. Which business strategies and business models are being employed by the major competitors in this case? Which are most successful, and why?**

Amazon has a strong business model in that it has diversified into many adjacent business areas and products falling under the online merchandising umbrella. It operates on a direct-to-consumer online model which boosts both inventory turnover and return, while at the same time operating lean warehouse and inventory operations in multiple geographies. With this in mind, the company clearly takes a *cost leadership* based approach to its business strategy. The aim of such a strategy is to create the same or similar value for consumers by delivering products/services at a lower cost than its competitors, thus being able to offer lower prices to consumers. This approach is best exemplified by the way Amazon sells its Kindle tablet: 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.

Apple and Google, by contrast, have positioned their competing technology based on unique features while keeping costs at the same or similar levels; this is consistent with a *broad differentiation* strategy. The goal of a differentiation strategy is to increase the perceived value of goods and services in the eyes of consumers so that they are willing to pay a price premium. Companies typically accomplish this by leveraging one of the following *value drivers*: product features, customer service, customization,

and complements. Apple, for example, has dedicated company stores staffed with in-house experts. The company was also first to market with a smartphone and tablet and has largely set the industry standard with respect to product features and complements. Thus, Apple tends to have the strongest brand image and therefore charges the highest price premiums.

Facebook's business model is based primarily on three functionalities of its social media platform: News Feed, Timeline, and Graph Search. Overall, these three functions serve to attract eyeballs that advertisers and marketers can then exploit. Because the platform can serve as basis for segmentation to target specific segments of users, marketers and advertisers can reach, engage, and offer contextually relevant information to consumers in a way that is unique relative to other social platforms (customization, complements). In this way, Facebook also operates under a broad differentiation strategy.

Finally, 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. Nonetheless, the company, like Amazon, ultimately takes a cost leadership approach to its business strategy too. Alibaba is asset-light given that it does not involve itself in procurement and storage of inventory and delivery of orders received, but rather it offers a marketplace to connect buyers and sellers. The intrinsic value of this to buyers and sellers is clear by the incredibly high margins that Alibaba generates, assisted by the low costs of its operations.

Of the major competitors exercising a broad differentiation strategy, it is perhaps Apple that executes most successfully. The company monetizes sales very effectively via iTunes as well as the devices that it sells, offers exceptional customer service and creates captive consumers by integrating all of its product offerings and peripheral services into one highly integrative platform. By contrast, Google's reliance on open-source software enhances its market share but significantly handicaps its ability to profit from its innovations. Overall, Apple appears to be able to offer consumers higher value (which consumers are willing to pay for) at a similar cost to its competitors.

With that said, Amazon's cost leadership, itself a function of the scale at which the company operates, means that Apple cannot compete with respect to retail scale. This ability of Amazon to offer, for example, content and online streaming en masse may limit the growth potential of Apple's iTunes particularly if Amazon's offerings cross platforms. Here, Amazon is capable of offering highly similar value but at a lower cost. However, Alibaba's cost leadership may yet eclipse that of Amazon's due to its platform/marketplace approach which reduces costs even further. Indeed, because Alibaba avoids the costs of procurement, storage, and delivery, its margins are higher even than Amazon even though they both operate on such a scale. Amazon needs to be vigilant of means by which to reduce operational cost if it is to compete with Alibaba in the event that Alibaba enters the U.S. market.

#### **4. Formulate a business strategy and business model that would allow Amazon to become and remain profitable.**

Amazon lacks profitability primarily due to the low prices that have underscored its pricing strategy both in terms of online retail as well as AWS. This is compounded by the fact that Amazon is direct-to-consumer, meaning that it owns the majority of its inventory that it retails online, adding to fulfillment and warehousing costs. There are also additional costs of data centers, fulfillment and sorting centers, not to mention the cost of hardware (especially in the case of AWS), content for subscription and streaming purposes, and Prime subscribers who benefit from expedited shipping. Overall, the lack of profitability is to be expected by a cost leader on the scale of Amazon, where the emphasis is on undercutting competition to gain market share.

Given the cost leadership strategy that Amazon subscribes to, profitability may be reached primarily through lowering costs. It should be remembered that Amazon has numerous competitors in the retail space, and raising prices would place the company at a competitive disadvantage without offering a commensurate value for which the consumers would be willing to pay. Amazon Prime is perhaps an example of such an approach, in that Amazon charges a subscription fee for enhanced services; however, the cost of fulfillment, warehousing, and shipping means that any benefit of increased margin/revenue is nullified by the operational costs of catering to Prime subscribers.

A recent Forbes analysis,<sup>1</sup> however, indicates that Amazon may not be at the bottom end of pricing when compared to retail competitors such as Walmart and Target. Prices in some key product categories are 5 percent to 10 percent cheaper than they are on Amazon, excluding shipping and taxes. Therefore, one clear approach would be to keep the current business strategy/model status quo and reduce prices with the expectation of making up any loss on margin via market share and transaction volume. Profitability achieved via this approach would likely be short term and competitive advantage temporary.

Another more robust approach to profitability via cost reduction would be to continue backward integration. This strategy may take two approaches. The first would be to expand the presence that the company has in the wholesale and distribution market. AmazonSupply would be an ideal vehicle for the company to carve out the same presence it has crafted in the retail space but in the largely less competitive and fragmented wholesale space. Given the infrastructure that Amazon already has in place, it is conceivable that the company can offer its business clients products in a client-friendly and efficient manner, and command a premium for such service. The company may position this business unit more along the lines of a broad differentiator within the wholesale market.

A second possible approach would be for the company to continue to build out its own private label merchandise to sell on its own platform. This has arguably already begun with the Amazon's entry into the CPG market through the release of its own diaper line.<sup>2</sup> While this may yet contribute to margins and profitability in a positive way, such a move again places Amazon in competition with CPG companies like Proctor & Gamble, which may jeopardize any existing relationships that the company may have with similar suppliers, and thereby jeopardize sustainable profits.

Finally, perhaps one of the more sound approaches Amazon could take is to stand up various business units as standalone businesses via a spin out. Eligible units include the likes of AmazonSupply, and most notably, AWS. Such an approach addresses two issues. First, as a separate business entity, a unit like AWS would be able to break away from the broader cost leadership strategy of Amazon, and begin to pursue a differentiation strategy where margins are higher. AWS is a prime candidate for such a spin out, given the tremendous growth the cloud-computing market is experiencing and projected to experience in the near future, as well as the fact that AWS has substantial traction and market share in the market already. The second issue such a spin out addresses is the risk that Amazon as a whole becomes "stuck in the middle" in pursuit of a differentiation strategy. Isolating such a strategy to discrete business units under the Amazon umbrella negates the risk of creating a broader business that must somehow transition successfully from a cost leader towards becoming a broad differentiator.

##### **5. What are the implications of your strategy formulation at the business level for Amazon's corporate strategy?**

There are three major considerations and implications in considering spinning out a business unit like AWS. To begin with, Amazon needs to determine how to organize itself to make optimal use of any

competitive advantage that spinning out an internal business unit might have, in accordance with the VRIO framework. Ultimately, the company still has to satisfy the VRIO criteria in order for profitability to be sustainable. This organization may take on the appropriate structure as discussed in text Chapter 11 according to whichever structure best suits Amazon's goals in terms of spinning out a particular business unit.

Second, given that Amazon is in essence a collection of various business units, the company needs to consider the implications of spinning out one of these businesses on the other business units. Given the pressure stockholders are placing on Amazon to focus more on profitability, if not deliver sustainable profitability, the company may face additional pressure to divest other business units, particularly from activist shareholders who are becoming more and more influential in technology companies (Apple has not escaped the attention of activist shareholders either).<sup>3</sup>

Finally, a business strategy that includes spinning out AWS such that Amazon overall can become profitable presupposes that AWS can pursue successfully a strategy that is intrinsically different from the broad cost leadership strategy that Amazon currently employs. Such a change in strategy, while as a whole, would reduce the risk to Amazon that it may succumb to being "stuck in the middle," raises the risk that AWS as a standalone business becomes stuck in the middle. Such a scenario may yet to prove to be the demise of a unit that is otherwise the highlight of Amazon's current revenue stream.

## *IMPLEMENTATION: FOCUS ON RECOMMENDATIONS AND HOW TO EXECUTE THEM*

### **6. How should Jeff Bezos go about implementing any changes to the business and corporate strategy recommended earlier? What changes to structure and process need to take place?**

As touched on in the last question, spinning out a unit like AWS requires Bezos to consider ramifications on how to best organize in order to create a sustainable competitive advantage once a decision of this importance has been made. Within this issue, it becomes important for the structure to be appropriate and to match the chosen business strategy that the new spin out opts for (and not vice versa). Perhaps most notably, the chapter text opens with the discussion of Zappos and the structure that the company chose and how this facilitated a sustainable competitive advantage and success in its business strategy. Amazon, as the case indicates, acquired Zappos, in 2009. Significantly, and despite being a subsidiary of Amazon, the company maintained its structure and was allowed to operate as an independent brand. Certainly, being able to organize and adapt organization to best serve its customers was intrinsic to Zappos' ability to sustain its competitive advantage.

Likewise, it becomes important for Amazon to commit to a business strategy for AWS, and then organize the unit appropriately in order to be able to capture any value from the spin out. This is particularly important in the context of Amazon's broad cost leadership strategy, and the notion that in order for the spun-out entity to become a profit center for Amazon, the divested unit may have to consider a differentiation strategy. According to a comparison of mechanistic vs. organic organizations, such a strategy is best suited to companies that are more organic, whereas the cost leadership strategy that Amazon as a whole pursues matches a more mechanistic organization. Therefore, for the newly spun-out AWS unit to be the profit center that Amazon desires, it will essentially have to undergo a change in both structure and processes, which are both in stark contrast to the way through which Bezos and the majority of Amazon is organized/run.

Ultimately, Bezos will have to keep the structure of AWS as simple or more likely, functional, given its current size. He will also have to think about placing in managerial and leadership positions individuals who are familiar with the technology and business of AWS, as well as with the pseudo-entrepreneurial environment that AWS will create via separation from the Amazon parent company.

## Additional Resources

1. To read the interview with Jeff Bezos referenced in the case, see:

Hansern, M. T., Ibarra, H., and Peyer, U. (2013), "The 100 Best Performing CEOs in the World," *Harvard Business Review*, January–February: 2–15. <http://hbr.org/2013/01/the-best-performing-ceos-in-the-world>.

2. Additional good articles for background reading include:

"Another Game of Thrones," *The Economist*, December 1, 2012. <http://www.economist.com/news/21567361-google-apple-facebook-and-amazon-are-each-others-throats-all-sorts-ways-another-game>.

Lessin, J. E., Bensinger, G., Rusli E. M., and Efrati, A. (2012), "2013 Preview: Apple vs. Google vs. Facebook vs. Amazon—The Lines between Software and Hardware Continue to Blur," *The Wall Street Journal*, December 26, B.1.

"How Far Can Amazon Go?," *The Economist*, June 21, 2014. <http://www.economist.com/news/leaders/21604550-it-has-upended-industries-and-changed-way-world-shops-it-should-beware-abusing>

"Amazon. Relentless.com," *The Economist*, June 21, 2014. <http://www.economist.com/news/briefing/21604559-20-amazon-bulking-up-it-notyet slowing-down-relentlesscom>

3. Supplemental videos:

*Tablet Wars Heat Up as Apple Rolls Off New iPads* (2:05). [http://www.cbsnews.com/8301-18563\\_162-57608796/](http://www.cbsnews.com/8301-18563_162-57608796/)

October 22, 2013. A CBS *Evening News* segment highlighting the release of three new competing tablets on the same day. Apple faces increasing price pressure and competition for market share with the onslaught of cheaper, Android-based devices.

*Google Joins the "Tablet Wars"* (4:04). [http://www.cnn.com/video/?/video/tech/2012/06/28/church-google-new-tablet.cnn&ieref=videosearch&video\\_referrer=http%3A%2F%2Fwww.cnn.com%2Fsearch%2F%3Fquery%3Dtablet%2520wars%26sortBy%3Ddate#/video/tech/2012/06/28/church-google-new-tablet.cnn](http://www.cnn.com/video/?/video/tech/2012/06/28/church-google-new-tablet.cnn&ieref=videosearch&video_referrer=http%3A%2F%2Fwww.cnn.com%2Fsearch%2F%3Fquery%3Dtablet%2520wars%26sortBy%3Ddate#/video/tech/2012/06/28/church-google-new-tablet.cnn)

June 28, 2012. A CNN *Video* clip highlighting the release of Google's Nexus 7 tablet with an overview of other recent developments in the mobile technology industry (Microsoft Surface, Apple vs. Samsung lawsuit, Google Glass).

*Tablet Wars Heat Up with Kindle Fire (2:16).* [http://www.cnn.com/video/?/video/tech/2011/09/28/bts-kindle-fire.cnn&ieref=videosearch&video\\_referrer=http%3A%2F%2Fwww.cnn.com%2Fsearch%2F%3Fquery%3Dtablet%2520wars%26sortBy%3Ddate](http://www.cnn.com/video/?/video/tech/2011/09/28/bts-kindle-fire.cnn&ieref=videosearch&video_referrer=http%3A%2F%2Fwww.cnn.com%2Fsearch%2F%3Fquery%3Dtablet%2520wars%26sortBy%3Ddate)  
September 28, 2011. A *CNN Video* featuring Jeff Bezos' introduction of the Kindle Fire, discussing its unique features.

*Watch Amazon CEO Jeff Bezos Get Grilled in Rare Public Interview (6:35)* <http://www.businessinsider.com/amazons-jeff-bezos-on-profits-failure-succession-big-bets-2014-12>  
December 16, 2014. A *Business Insider* video of a rare one-on-one interview with Jeff Bezos, covering topics from the Fire phone disaster, the company's frugality, Bezos's succession plans, and how the company convinced Wall Street to put less emphasis on quarterly profits.

Contact your local representative from McGraw-Hill Education (<http://shop.mheducation.com/store/paris/user/findltr.html>) for information about access to financial analysis spreadsheets.

EXHIBIT TN-1 SWOT Analysis of Amazon.com

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Capable of operating successfully on marginal profit, but on huge scale</li> <li>Strong brand and extensive experience in online-based shopping</li> <li>Agility and ability to disrupt itself</li> <li>Diverse array of technology offerings</li> <li>Strong relationships with publishers, content providers, tech developers</li> <li>Strong bargaining power due to scale of operations</li> <li>Highly customer-centric business</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>Operates on low margins, high debt</li> <li>Potential to be spread across too many businesses/industries</li> <li>Beyond Kindle, has stumbled in the consumer hardware space</li> <li>Has a limited ecosystem-like platform to capture consumers</li> <li>Encountering legal issues related to bargaining power (antitrust), contracts, employee relations, product liability, etc.</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Continued growth and development of IaaS segment</li> <li>Continued migration of consumers from traditional to e-books, media, and content/streaming</li> <li>Increasingly more e-commerce activity in developing (international) markets</li> <li>Evolution and growth of e-commerce as it applies to wholesale</li> <li>Plethora of tech startups representing potential future strategic acquisitions</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>Unprecedented competition from both traditional and nontraditional rivals</li> <li>Increasing regulation of commercial activities affecting Amazon (taxes, drones)</li> </ul>

## Endnotes

- 1 Trefis Team (2014), “Amazon’s Profitability Can Further Decline in the Future (Part 2 of 2),” *Forbes*, December 12.
- 2 Ziobro, P. (2014), “Amazon Tries on the Diaper Business,” *The Wall Street Journal*, December 4.
- 3 Farrell, M. (2015), “Carl Icahn Presses Apple to Buy Back Its Stock . . . Again”, *The Wall Street Journal*, February 11.