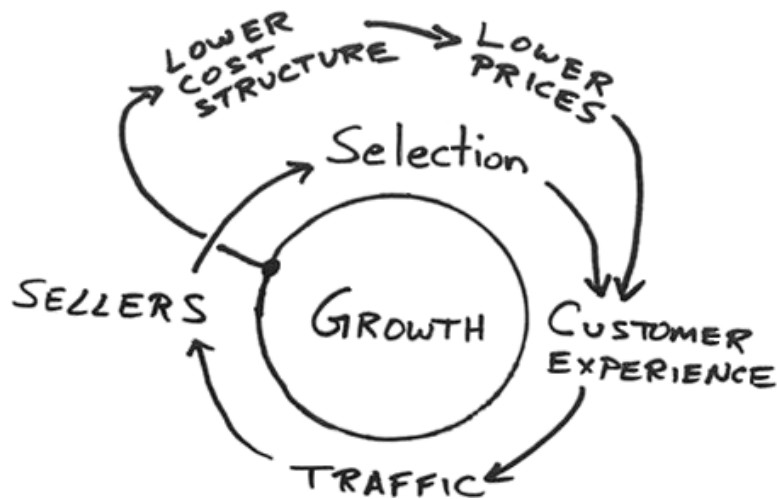




## SWOT Analysis report on Amazon

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## Introduction

**Amazon** is an American electronic commerce and cloud computing company with headquarters in Seattle, Washington. It is the largest Internet-based retailer in the United States. What started as an online book store now has a diverse range of services. Its logo has a curved arrow leading from A to Z – showing that the company has every product from A to Z. The company also produces consumer electronics—notably, Amazon Kindle e-readers—and is the world's largest provider of cloud infrastructure services (IaaS). Amazon also sells certain low-end products like USB cables under its in-house brand AmazonBasics.

Despite being a big and well established company founded more than 20 years back, Amazon still faces a lot of difficulties in every aspect of their business in a fast changing world. It needs to constantly innovate and improve to stay on top.

In this report we will do a detailed SWOT analysis to see what are amazon's strengths, weaknesses, opportunities and threats and we will explore some of the strategies incorporated by Amazon. We will then focus on the global market and go through some of the success and difficulties faced by Amazon in the past years. Finally we want to use these information to recommend minor changes or improvements which could possibly help improve Amazon's business.

## Description

<b>Strengths</b> What do you do well? What unique resources can you draw on? What do others see as your strengths?	<b>Weaknesses</b> What could you improve? Where do you have fewer resources than others? What are others likely to see as weaknesses?
Brand recognition and visibility.  Large range of product offerings.  Minimal profit from individual items. Profit comes from the volume of sales.  Revenue comes from multiple services.  Customer centered business model	Many operational Issues such as lawsuits.  Low profit margin.  Unsuccessful proprietary products.  Strong focus on online retailing and services affects expansion in emerging markets.
<b>Opportunities</b> What opportunities are open to you? What trends could you take advantage of? How can you turn your strengths into opportunities?	<b>Threats</b> What threats could harm you? What is your competition doing? What threats do your weaknesses expose you to?
Increased global expansion.  Expansion to more product segments.  Increase proprietary products.  Acquisitions to drive growth.	Global market/government regulations and fluctuations.  Low cost regional retailers.  Online security.  Regulation of third party sellers.

## Strengths

Amazon's brand needs no introduction. It is the #1 retailer in the United States and also the largest global internet-based retailer. Amazon.com has #6 Alexa rank and AWS, it's cloud infrastructure service is also number #1 in the world.

Income reported by Amazon has been growing well continuously every quarter. This is due to the companies constant diversification which has resulted in it having hundreds of different

products and services in seemingly every industry. Amazon's shareholders love the revenue that these products and service spin off.

Amazon makes its **profits from the volume of the sales** rather than the profit from individual items. By providing sellers with access to a large market of around 304 million active customers and by taking care of all the logistics by itself, attracts more and more sellers to use Amazon to provide their products.

Amazon's **customer centred business model** is one of its strongest point. The entire E-commerce experience of the customer has been made really smooth and easy. Various features including detailed seller information, well managed customer feedback, quick and easy one click shopping options, alerts and notifications help to enhance the user's web experience. The importance given to enable quick, secure and hassle free shopping and the aim to provide the best customer service shows how much Amazon cares about the Customer.

## **Weakness**

Amazon faces a lot of **operational issues**. It has been subject to several lawsuits and claims over the past years. Most of these are related to patents, employee relations, product liability, environmental and antitrust. Such legal issues, irrespective of the actual outcome at the end of the day leads to financial drain, and tends to waste a lot of time which could instead be used to improve business.

Although Amazon's revenue has continued to rise continuously, the same cannot be said about its profits. In fact the company made a net loss of US\$241 million in FY2014. This is because of various costs like fulfilment cost, marketing cost and other expenses. Another strategy of Amazon is to immediately invest any profit it makes into new investments. In the past year, Amazon has shown an exciting increase in its profit margin, but this is mainly thanks to its cloud services. Amazon's still follows a **close to 0 profit margin** business

model.

Amazon's move into creating its own proprietary products was a move in the right direction. But apart from Kindle reader itself, it has faced several failures when it comes to proprietary services. Especially its Kindle Fire, Fire TV and Fire Phone products were not able to return the investment.

Amazon understands the importance of expansion both globally and into other product segments. However the online market is only a small portion of the actual global market. It is hard for Amazon to win over the emerging market especially since its focus remains on online services. Last year Amazon started its first physical store. This might be a good step forward to overcome this weakness.

## ***Opportunities***

Amazon's retail business model and its strengths as the #1 Internet shop allows for easy global expansion. It has actively been working on widening its presence and strengthening its assortment of products. Most **global markets** allow for easy expansion with minimal changes. Investing more to win markets such as China, India and Brazil will be required to propel Amazon forward.

Expansion need not only come in the form of global markets. Amazon has a lot of scope to expand in terms of **product segments** as well. With the huge potential of Online shopping and growing E-Commerce market, Amazon can easily capitalise on such opportunities.

With Amazon's business model which focusses on almost 0 profit margin, creating and providing successful **proprietary products** can greatly help increase profit margin and diversify its revenue breakdown.

**Acquisitions** play an important role in the growth of Amazon. Being a High tech company, it

needs to constantly stay ahead of every technical advancements and never fall behind.

Acquisitions are also to facilitate global growth and expansion to various new product segments. By acquiring various companies with strong user base and integrating their services with itself, it aim's to increase it's user community and technologies.

## **Threats**

Amazon has been subject to various **regulations** governing the internet and e-commerce in addition to general business regulations and laws. These include taxation, privacy, data protection, pricing, content, copyrights, electronic device certification, electronic waste, consumer protection, the provision of online payment services, the design and operation of websites, and the characteristics and quality of products and services.

Moreover, rules and regulations can keep changing from one country to another or from one product to another. Because of these Amazon faces a lot of trouble when it comes to expansion. Establishing business after satisfying all these rules and regulations and legal obligations can be very time consuming.

Also, such **laws can keep changing** constantly and it is necessary for Amazon to keep track of such changes and update their business as fast as possible.

Retailing business is one of the most unstable and competitive business. It is very easy for new companies and competitors to start up and challenge the market. Also, for a company like Amazon which **does not focus on a single brand** but on wide range of products, competition from brand-specific market leaders can be a big threat due to lack of strategies and marketing which focuses on these specific brands.

In many global and regional markets, **low cost local retailers** can pose a serious competition to Amazon. Competitors whose business model and strategy are more suited to cater to the

specific needs and also the rules and regulations of that market have a big advantage.

Amazon needs to constantly keep track of various metrics including price, selection, convenience, quality, speed, and reliability of its services and tools to keep up with its competitors.

**Online Security** and privacy is a big concern for most tech companies these days. Especially for a company like Amazon which has such a huge customer base and also deals with E-Commerce. Amazon needs to constantly stay ahead of technological advancement to never compensate on Security and Privacy.

Because a majority of its products are sold by third party retailers, Amazon which focuses on Customer happiness and shopping experience needs to maintain strict regulations and control over its **third-party sellers**. Since it focuses more on the logistics rather than the manufacture aspect, it always faces the threat of negative customer experience because of third party sellers.

## **Discussion**

Expansion into global markets is one topic where Amazon has faced a lot of difficulty. Global expansion is not very easy. In most cases expansion to a new global market can be compared to creating a new company from scratch in a new location. Government rules, laws and regulations are going to be very different. Logistics, marketing, strategies all needed to be thought of keeping the new target in mind. Any company which attempts global expansion without properly considering these factors tend to fail for one reason or the other.

Amazon might have several services and products ready to use and sell, but without reanalysing every aspect of its business keeping the target location in mind, it cannot

succeed. And Amazon knows this quite well.

India has more than 400million Internet user which is much more than the United States despite the very low penetration of e-commerce. And what is more, it is growing rapidly. Number of online shoppers is expected to reach 100million in 2016. Amazon has made great progress and has gotten a strong foothold and a good percentage of the market in just 3 years after entering the race.

Flipkart and Snapdeal are the main competitors in India. Both are young start-ups, especially when compared to Amazon which is well established. They don't have as much investments and finance to support them as compared to Amazon. Yet you see them thriving and competing fiercely with Amazon in India. The strategy used by each company is an important reason for this situation.

There are many examples of the challenges and problems faced by Amazon in India.

Amazon usually makes use of an Outsourcing strategy when it comes to part of it's logistics. In the United States, UPS and Fedex take care of this. But in India, it is not the same. Flipkart was able to make use of their own logistics group E-Kart to provide immediate/next day shipping. Amazon was able to see that using UPS and Fedex is not going to be enough, and setup it's own logistics group in India. This has helped it keep up with delivery expectations. Flipkart introduced Flipkart Success Stories. This was a very good way for them to target Indians and make Flipkart easily relatable. Amazon has created Success stories in the past as well. However these are not so relatable to Indians. Marketing it's sellers/customers and their successful shopping experience to encourage more users to start using Amazon is a good strategy in general. By customising these and adding an indian flavour to these, amazon will be more easily relatable to the average indian consumer.

Very recently Amazon came under serious fire for selling doormats and other products with



images and verses with religious meanings. Although Amazon reacted immediately and took down such products from their site, the damage was already done. This is one such case where Amazon did not completely analyse a strategy without considering all target locations and customers properly.

With such examples we can see how the new market has given many problems for Amazon and we can understand the need to analyse and come up with strategies specific to the market.

## **Conclusion & Recommendation**

### **Build Trust**

Trust is one of the most important factor when it comes to increasing the number of both customers and sellers using Amazon. People are obviously going to be more comfortable and ready to use a service like Flipkart which operates solely in India and has been in India for longer than Amazon. Although trust takes time to build and maintain, there are some efforts which can be made to make Amazon more trustworthy for Indians.

One such recommendation can be made when observing Flipkart. Flipkart was founded by Sachin Bansal and Binny Bansal. The Bansal family is a well known and successful family in India and this makes Flipkart much more trustworthy compared to a foreign company like Amazon and names like Jeff Bezos.

Amazon needs to market in a better way so that it is more easy for Indians to relate to it. Amit Agarwal, India's Managing Director has played a big role in Amazon India's success. But a lot of it has been completely behind the scene and unknown to the majority population of India. Making him more well known and relatable to Indians will help Amazon increase it's trust factor in India.

Another factor is social shopping. India is rapidly developing and the millineals are playing a big role in driving the country forward. Social shopping has always helped to increase sales and encourage customers to buy more. Previously Flipkart launched Flipkart Ping, but due to bad execution this was not so successful. Amazon has had various success in this field before and it makes a lot of sense to come up with some social shopping strategies in India.

## **Collaborative Efforts**

Amazon is working to capture more and more of the Indian E-Commerce market. Competing with other competitors and providing better service to win over customers and sellers is just one solution. In a fast growing market such as India, collaborative efforts can be made with companies such as Digital India, Project loon and Google Wifi.

These companies are working to make Internet accessible to more and more of India, and working together with these companies to support their cause and even coming up with collaborative offers and plans can be a good way of capturing the emerging market. Although topics such as Net Neutrality are against individual service provider taking advantage of emerging market, such efforts can definitely help Amazon market it's services more effectively.

Amazon is big and strong and has a good business model revolving around Customer.

Without doubt it has a big advantage compared to it's competitors. By reanalysing it's strategies keeping the target in mind, it can make simple changes in strategies which can play a big role to drive it's growth forward.