

amazon.com[®]

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1.0 Executive Summary

This report has been designed to provide Amazon.com with a strategic plan for their global operations within the e-retailing industry.

Amazon.com is a leading e-retailer and is a globally recognised brand, but is facing increasing competition from bricks and mortar companies setting up an online presence and current e-retailers increasing their geographical and product scope.

The internal and external analysis reveals that Amazon.com has been under-performing in China; thus it has been recommended that Amazon.com penetrate the Chinese market. This will require implementing a marketing strategy, and by introducing the Merchant Program in order to make the company more locally responsive and take advantage of the growing online market. A possible change in structure has also been suggested to aid strategy implementation.

1.1 Report objectives

The report objectives and the structure of the report will consist of four main sections that will enable us to recommend a strategic direction to Amazon.com, these are:

1. To establish background information on Amazon.com's current strategic position
2. To investigate, analyse and evaluate Amazon.com's external and internal environment
3. To generate strategic options that Amazon.com could adopt, derived directly from the internal and external analysis
4. To decide on the best option we would recommend to Amazon.com and detail the implementation implications of this option

Our strategy will be developed using the basic design school model of strategy formulation (Mintzberg, 1990) as illustrated below.

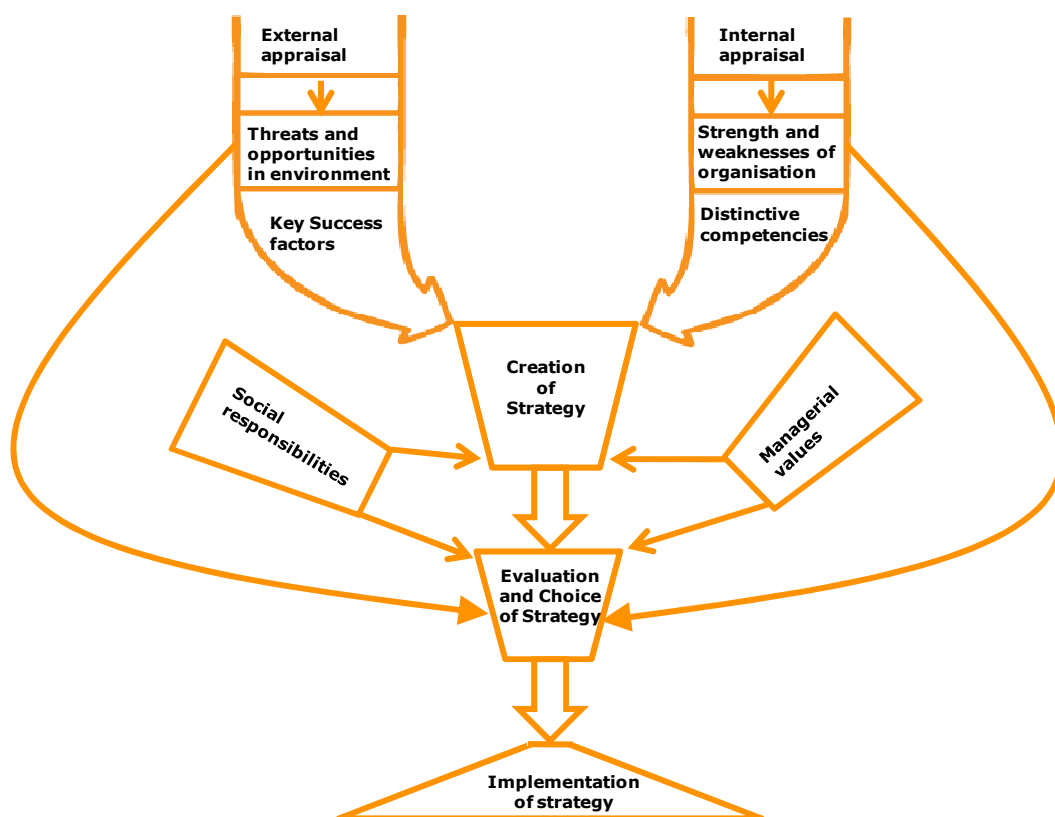


Figure 1: Design School Model (Mintzberg, 1990)

1.2 The Strategic Drift

One of the objectives for conducting the external and internal analysis is to avoid the risk of a strategic drift. A strategic drift occurs when strategies progressively fail to address the strategic position of the organization and thus performance deteriorates (Johnson and Scholes 2006). Amazon.com's strategic change must be complimentary with environmental changes in order to avoid the risk of a strategic drift which may lead to a need for transformational change.

(Steven, SBM Research, 2007)

The risk of strategic drift

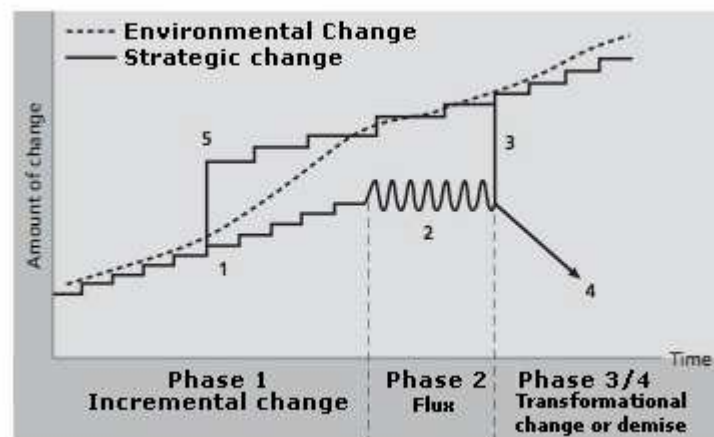


Figure 2: The risk of strategic drift

1.3 Amazon.com Overview

Amazon.com was one of the first major companies to sell goods over the Internet and has become a worldwide established name. Amazon.com is an American e-commerce company that is based in Washington. It was founded by Jeff Bezos in 1994 and began as an online bookstore but due to its success, Amazon has diversified into other product lines and services such as groceries, electronics and Merchant Program (see Appendix 1 for detailed portfolio). Amazon.com's stock price has fluctuated in recent years from \$105 in 1999 to \$5 in 2001 (Lauden and Traver, 2000). Amazon.com has developed separate websites for Canada, UK, Germany, France, China and Japan. Amazon.com vision is to become (Amazon.com, 2007):

"Earth's biggest selection and to be Earth's most customer centric company."

2.0 Analysis

2.1 External Analysis

The external environment is referred to as the macro-environment. This includes the broad environmental factors which will affect organisations at various levels. It is important to consider the potential impact of the external factors on the individual organisations (Johnson et al, 2006, P65).

2.1.1 PESTEL Analysis

PESTEL analysis is used to identify how future trends in the political, economical, social, technological, environmental and legal environments might influence an organisation (Johnson et al, P65).

PESTEL Factors	Key Point	Relevance to Amazon.com
Political	Government policies promote competition through telecom liberalization, e-commerce promotion and legislation (Held et al., 1999)	More affordable internet access and increase in internet users
	High government investment in national ICT infrastructures (DTI, 2002)	Faster, better and more reliable internet access for national users
	Relaxed EU and North American competition policies on e-retailing as opposed to heavy industries (Kobrin S, 2001)	Rapid expansion into new markets through acquisitions
Economic	High interest rates slow UK consumer spending. The credit squeeze and the housing slump has reduced consumer spending in the USA. However, consumer spending is rising in China and India due to high economic growth in both countries. (<i>The Times online</i> , 2008)	Amazon.com may consider entering India and developing the Chinese market.
	Internet retailing will see tremendous growth between 2006 and 2011 with sales rising over 100%. This growth is fuelled by the number of on-line households in the US, which has increased by 85% since 2000. (Euromonitor International from national statistics)	More potential customers for Amazon.com.
	By 2011, 617 million households across the world	More potential customers

	will have an annual disposable income exceeding US\$5,000. 143 million of these will be in Asia-Pacific. Second only to Western Europe with 185 million. (Euromonitor International from national statistics)	for Amazon.com.
Social	Increase in online social networking (<i>e-Marketer online, 2008</i>)	Marketing needs to take advantage of this new channel
	Product category risk and financial risk decrease online shopping (Soruce et al, 2005)	Need to consider overcoming risks to increase users.
	Growth of internet from 2002 to 2007 is 244.7%. 18.9% of world population use the internet (<i>Internet World Stats, 2007</i>)	Opportunity to increase market share.
Technological	There is an increase in broadcasting, information and telecommunications technologies for internet access	Increased frequency of use and sources (e.g. mobile devices, TV etc) for internet access by online shoppers
	Rapid development of 'high-speed' network services (e.g. broadband) increases usability of media-rich applications	Media-rich contents are easily made available to online shoppers
Environmental	Global Warming/ Pollution Awareness	Less car journeys, more shopping online. (Matthews et al, 2001)
	Have to become more "green" to attract consumers	Changing business methods and environment to become more "green", i.e. with postage and packaging, work environment.
Legal	No uniform regulations governing e-commerce covering all the countries e.g Data Protection Act in UK and Federal Trade Commission in USA	Be aware of both the domestic and international laws (Bange, 2007)
	EU Electronic Commerce Directive	Could impact the growth of transatlantic e-commerce given its strict regulations (Jacobson, 1999 as cited in Zugelder

		et al, 2000).
	The Electronic Signatures Law: China's First National E-Commerce Legislation	Removes legal obstacles and provides a more secure and transparent legal environment (Yan, 2005). Increased use of e-commerce for both consumers and businesses (Yan, 2005).

Summary of PESTEL

Political, economic, social, technological progress indicates an increasing and attractive market to be exploited by Amazon.com. The Chinese and Indian markets have shown exceptional growth. The use of internet as a social networking channel has created new opportunities to be exploited. Additionally, as environmental awareness increases globally (Stern et al, 2006) it is important that Amazon.com's strategy support environmentally friendly activities. The global nature of Amazon.com's activities also suggests that strategies developed should comply with the different legal obligations internationally.

2.1.2 Industry and competitor analysis

The analysis on industry and competitor environment is important for organisations, because it is useful for managers to understand the competitive forces acting on and between the organisations in the same industry (Johnson et al., 2006, p77).

Porters Five Forces in the E-Retailing Industry

Porter's Five Forces analysis is used to assess the attractiveness of different industries, and therefore, it can help in illustrating the sources of competition in a particular industry (Johnson et al, 2006, p78).

Power of suppliers

Low – For standardised products that are easily available supplier power will be low (12manage, 2008)

High - Specialised products and brands increase switching costs for buyers so the suppliers have higher power. With Amazon products such as the Harry Potter books are exclusive from publisher (Johnson et al, 2006)

High - Online shops making it easier for publishers/ brands to sell directly to consumers without a third party (e.g. Blackwell's), suppliers may not need Amazon (Johnson et al, 2006)

High – If there is a concentration of suppliers for certain products in the industry rather than fragmented (Johnson et al, 2006)

Low - Global shipping has increased the amount of suppliers available (Bennett, 2007)

Threat of Substitutes

High - Physical stores and touch, feel, hear factors (Ward, 2001)

High - Renting products online instead of buying them is increasing in popularity. This is a major concern for Amazon in their book sales as online retailers such as Textbookflix.com and BookRenter.com are providing much cheaper options than buying (RedOrbit, 2007)

High – The internet is a “Global Market”, consumers can substitute any product by purchasing from companies overseas where products are cheaper, but of good quality (Bennett, 2007)

Low – Catalogue/mail order although not as popular still a substitute to online buying (Bennett, 2007)

Competitive Rivalry

High – As search engines are becoming the first choice for consumers when shopping on-line e.g. Google. This increases the opportunities for other retailers (Cassiman & Sieber, 2002)

High – There is an increasing amount of dotcom companies due to the little capital needed to start up. Smaller niche affiliate online stores when combined create even more competition (Bennett, 2007)

Threat of new entrants

Low – For online established retailers a strong brand image generates consumer trust (Johnson et al, 2006)

Low - Economies of scale – Retailers that have refined technology and processes and are able to buy in bulk can offer the lowest prices. This is a major competitive advantage as there is much choice online (Johnson et al, 2006)

Low - Strong experience in the online retail industry gives e-retailers advantages in terms of cost and customer loyalty

High - Capital requirement entry is a low for online businesses' as cost of lease premises is minimal (Wiley et al, 2001)

Power of buyer

High – There is a large variety of online shops and comparison websites to compare best prices (McGrath and Heiens, 2003)

Figure 3: Porter's five forces

Summary of key findings from Porter's Five Forces

- The competitive rivalry amongst the e-retailing industry is intense. From some of the largest to the smallest companies, dotcom businesses are abundant, making competition intense. Amazon.com competes directly with big firms such as Barnes and Noble and Ebay.
- The threat of new entrants that are able to compete directly with Amazon.com is low
- The strong brand image of Amazon.com should be an advantage in any price wars

2.1.3 Competitor Analysis

Given the scope of Amazon.com's product range, there are hundreds of websites that Amazon.com competes with. However, for the purpose of economies of scale, many online retailers are either increasing product line breadth for existing markets, penetrating new markets with existing products or both. In order to capture the competitiveness of such firms within the online retail industry, strategic group analysis places emphasis on product line breadth and geographic markets served (see figure below). From this perspective eBay.com remains a top player within the group with over 29 geographic locations and 22 product categories. Amazon.com boasts of 7 geographic locations and 11 product categories. Amazon.com's position intensifies the urgency to expand both product line breadth and market presence in its competition with leader eBay.com (Pitts and Lei, 2006).

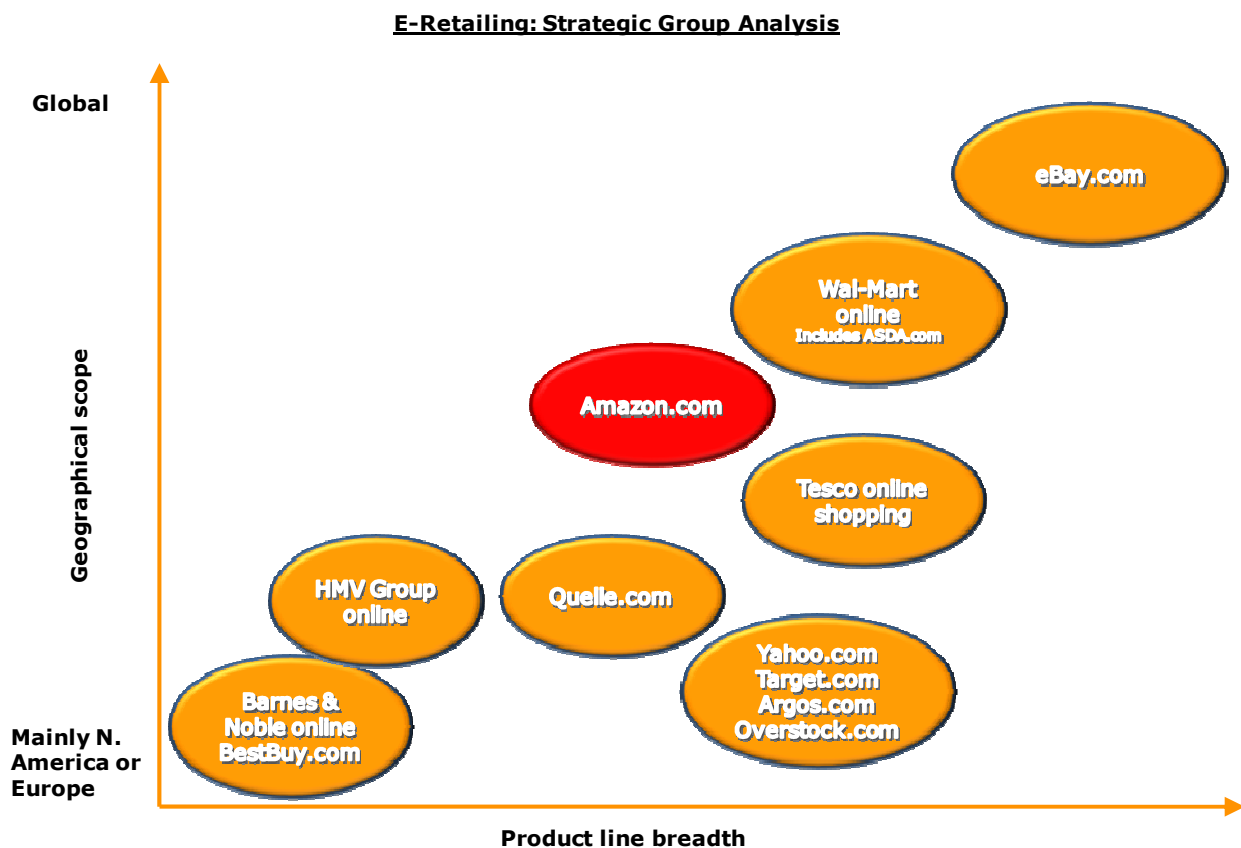


Figure 4: Strategic group analysis

Through our competitor analysis (see Appendix 2), the following was found:

- Barnes and Noble.com is seen to be a direct competitor with Amazon.com in books and lifestyle goods. However, Amazon.com has a wider product portfolio.
- Wal-Mart.com – Similar price and wider product portfolio (e.g. pharmaceutical, contact lenses and photo printing services)

- Ebay.com – Wider product portfolio and geographic scope

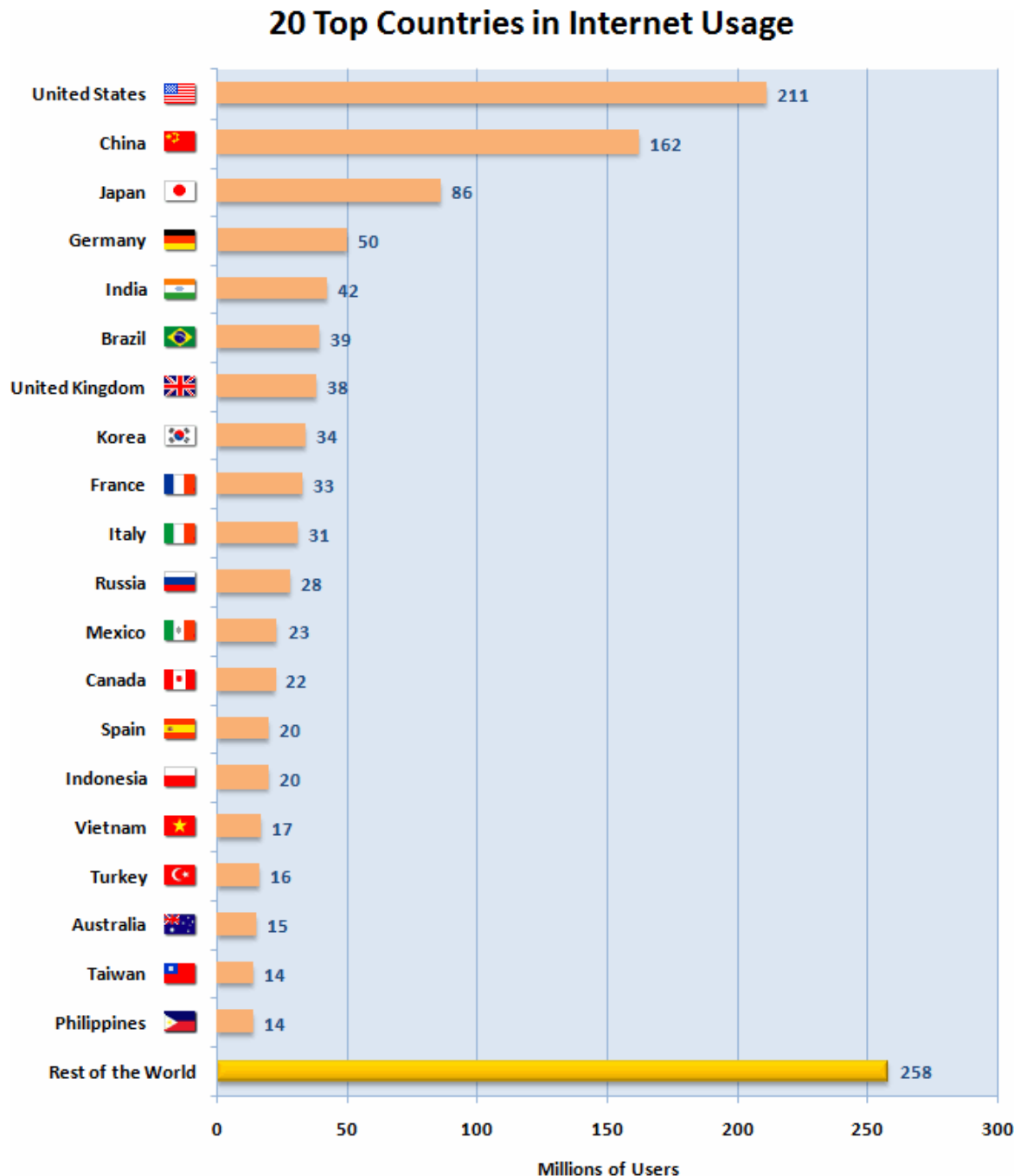
Some key competitors like Wal-mart and Tesco pose more competitive threats since they have physical stores meanwhile eBay.com has a wider geographical scope and product portfolio.

Amazon.com has to adapt its strategies to address these competitive threats.

2.1.4 Global Internet Trends

Internet Usage

Figure 5 and Appendix 3 show that the five countries with the highest internet usage are USA, China, Japan, Germany and India. Amazon.com have a presence in all of these countries except for India. This indicates a potential opportunity for Amazon.com.



Copyright © June 2007, www.internetworldstats.com [accessed: 27 Feb 08]

Figure 5: Top 20 countries in internet usage

Internet retail

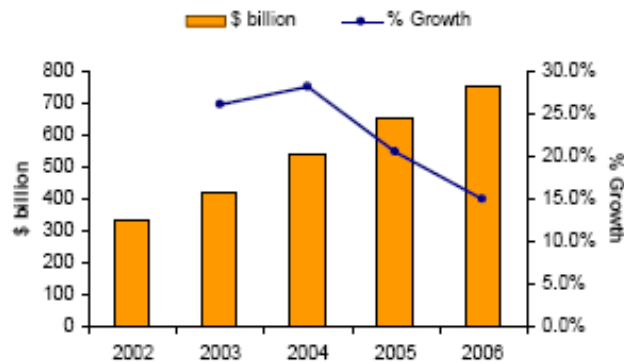


Figure 6: Global internet retail sector value, 2002-2006

Source: Datamonitor [Accessed 27.02.08]

The graph above shows that the global Internet retail sector grew by 14.8% in 2006 to reach a value of \$747.6 billion.

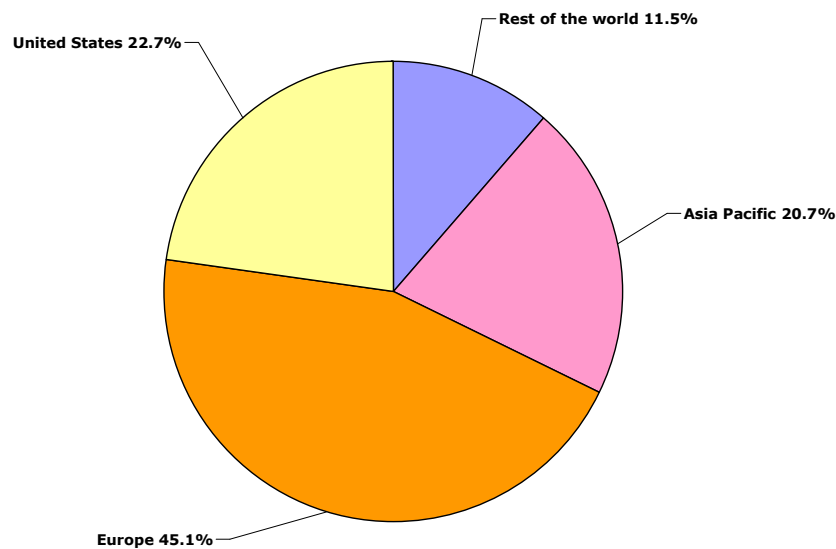


Figure 7: Global Internet Retail Sector Segmentation: % Share, by value

Source: Datamonitor [Accessed 27.02.08]

The graph above shows that Europe is the world's largest market and generates 45.1% of the global sector's revenues.

2.1.5 GE Matrix

A GE Matrix has been used to identify the attractiveness and competitive position of the markets that Amazon.com operates in, using the indicators as identified by Johnson et al (2006, p320). As previously discussed, all markets are facing similar conditions, however China and the USA appear the most attractive as they are the largest and most dynamic markets. China and Canada have the weakest positions within their markets, suggesting that investment is required for improvement. The other markets have strong positions within the industry.

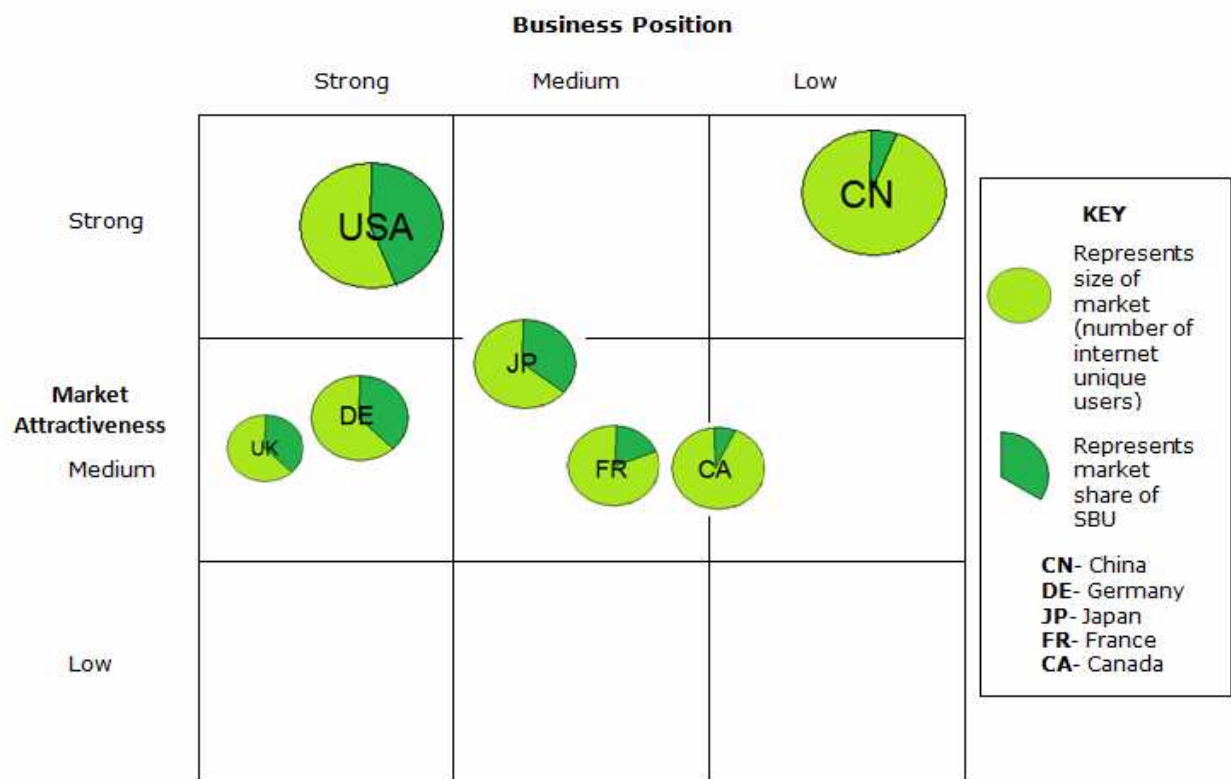


Figure 8: GE matrix

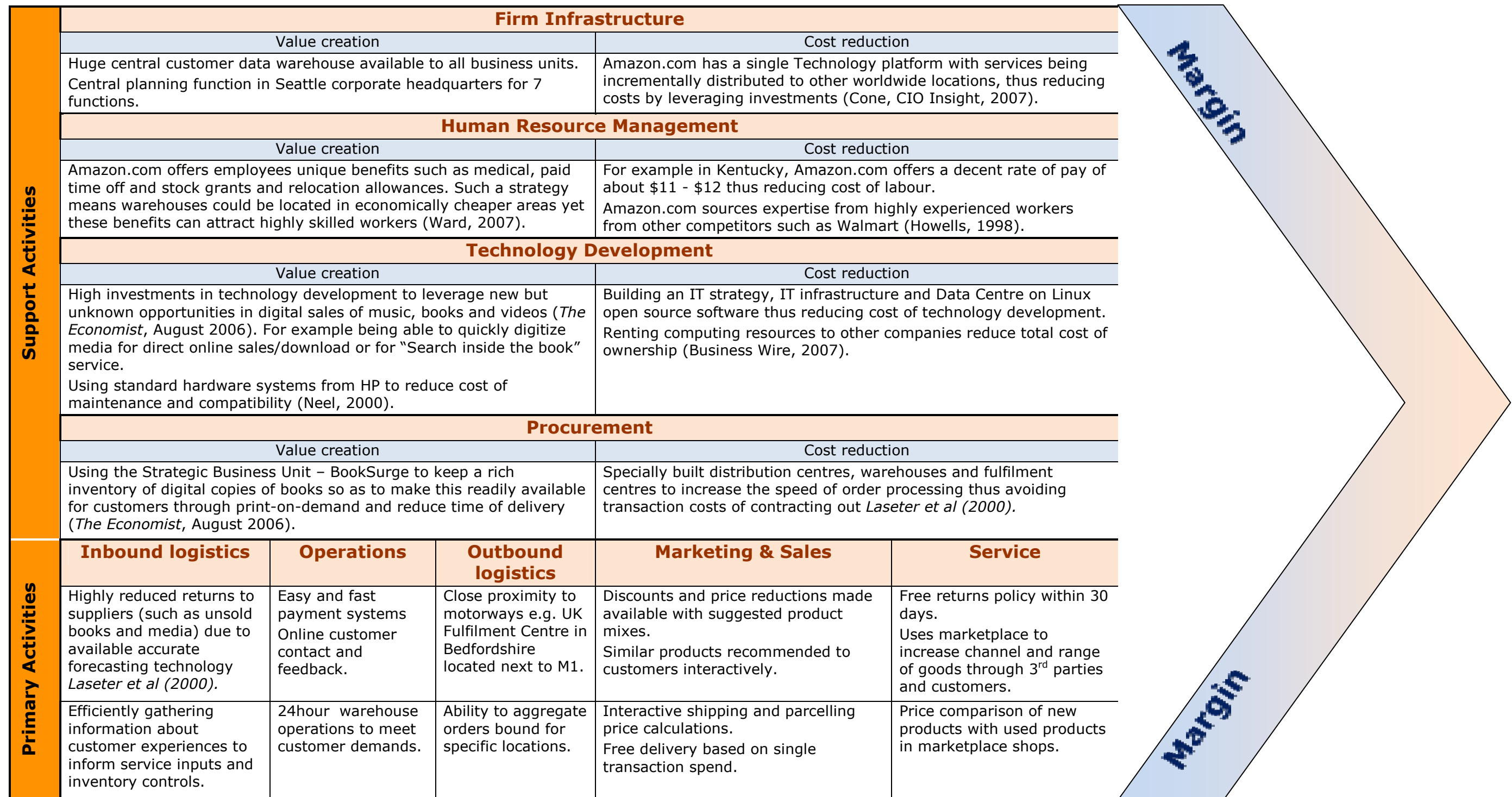
Source: Alexa.com traffic rankings accessed on 01/12/07 and InternetWorldStats.com 2007 stated online populations accessed on 01/12/07.

2.2 Internal Analysis

Internal analysis provides a useful method to establish the relationship between Amazon.com's resources and capabilities (internal strengths), and how this is used to create value for the customer. The internal analysis can also help to identify the limitations within Amazon.com's operations (Johnson et al, 2006).

2.2.1 The Value Chain

The value chain analysis undertaken examines the operational effectiveness of activities that enable Amazon.com to perform better than its competitors; i.e. the distinctive value chain activities that are difficult to imitate. Using the framework proposed by Amit and Zott (2001) this analysis focuses on 'value creation' and 'transaction cost economies'; where Amazon.com configures its value chain activities to create unique value for customers, reduce its costs of carrying out these activities and reduce the cost of its customers' transactions. The figure below indicates examples of how Amazon.com has created value and reduced costs in its value chain activities.



2.2.2 Resource Based View

The resource based view of a firm suggests that the sustainable competitive advantage and superior performance of an organisation are determined by its distinct capabilities i.e. resources and competences (Johnson et al, 2008). Therefore, in order for Amazon.com to develop, implement and sustain effective strategies, the capabilities of the organisation need to be exploited (Hooley et al, 2008). Amazon.com's resources and competencies have been highlighted in Figure 9 below.

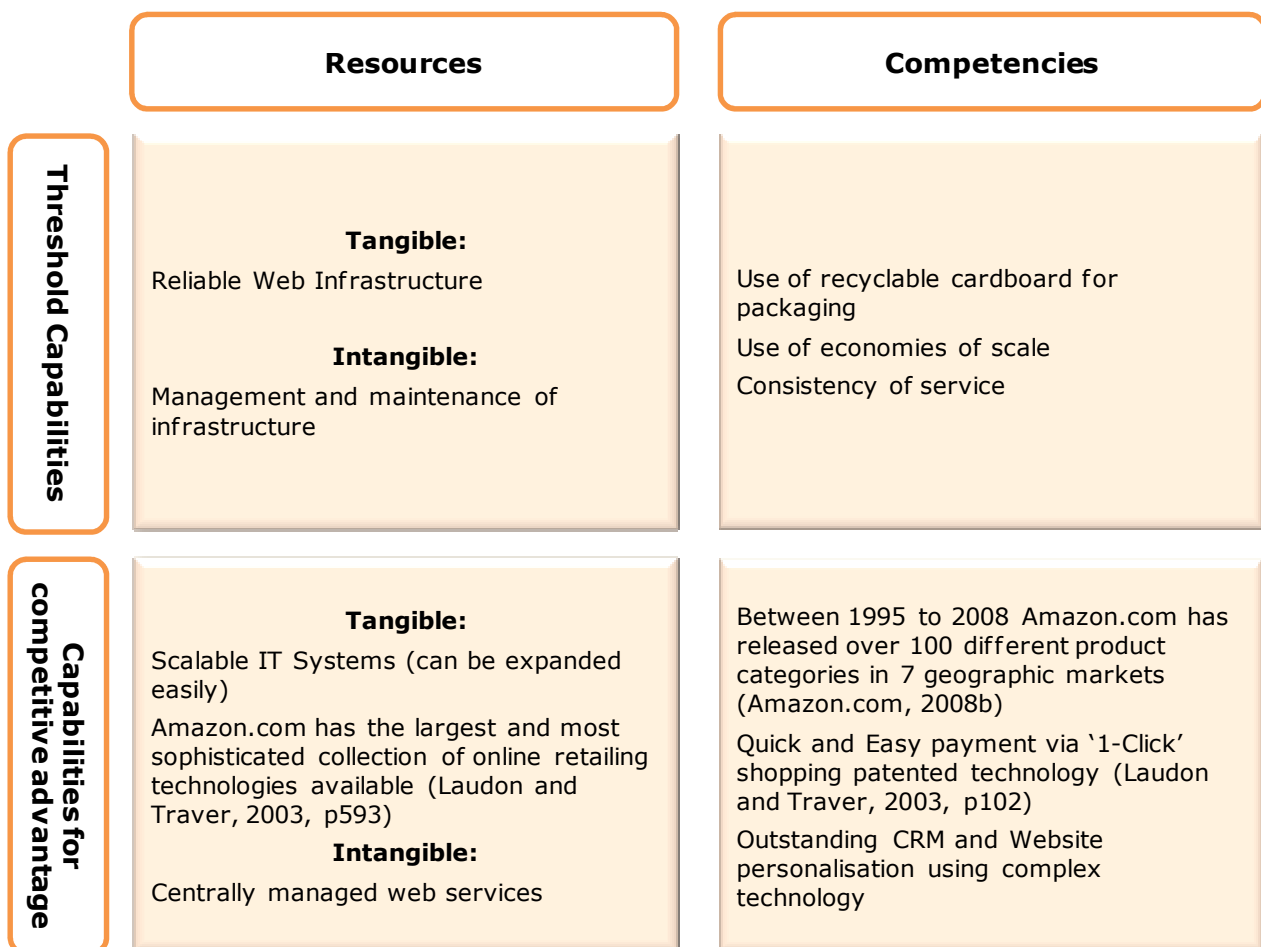


Figure 9: Resource Based View

2.2.3 Financial Analysis

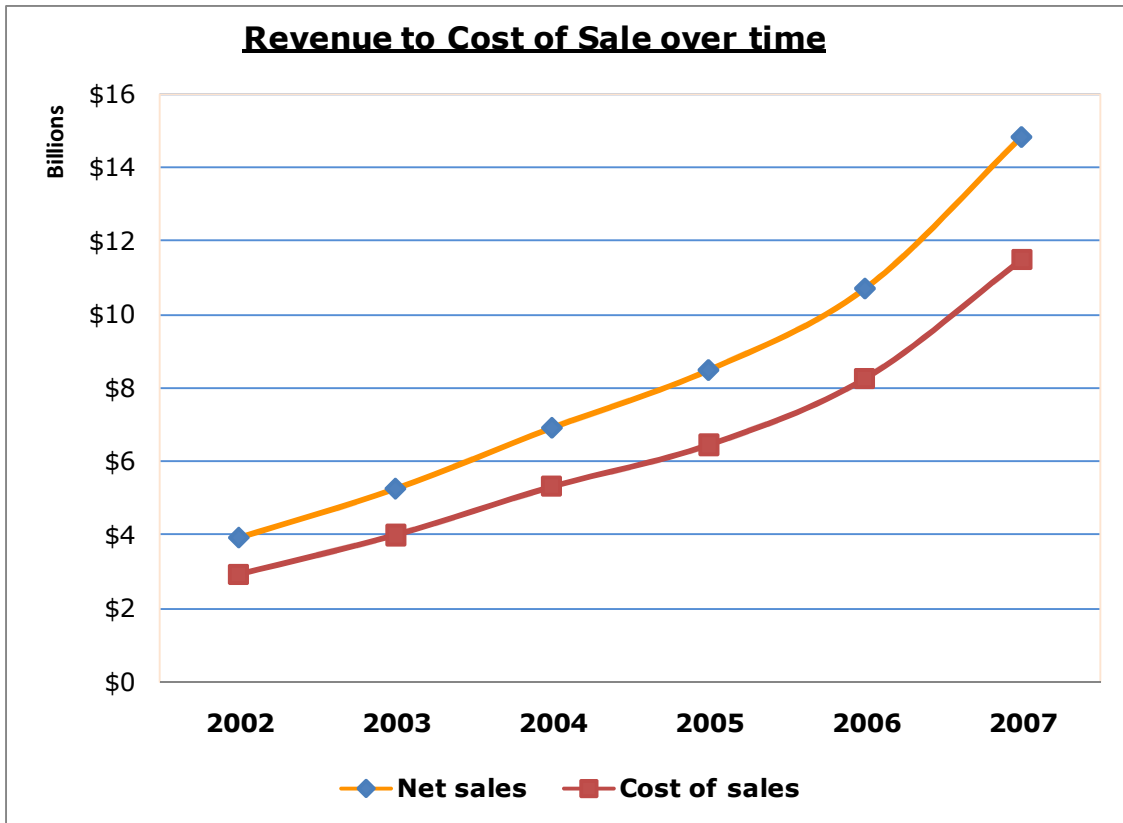


Figure 10: Revenue to Cost of Sale

The graph above shows that net sales have been increasing year on year since 2002. In 2007, we can see that the gap between net sales and cost of sales was the biggest it had ever been. This indicates that operations and costs of generating revenue have been managed efficiently.

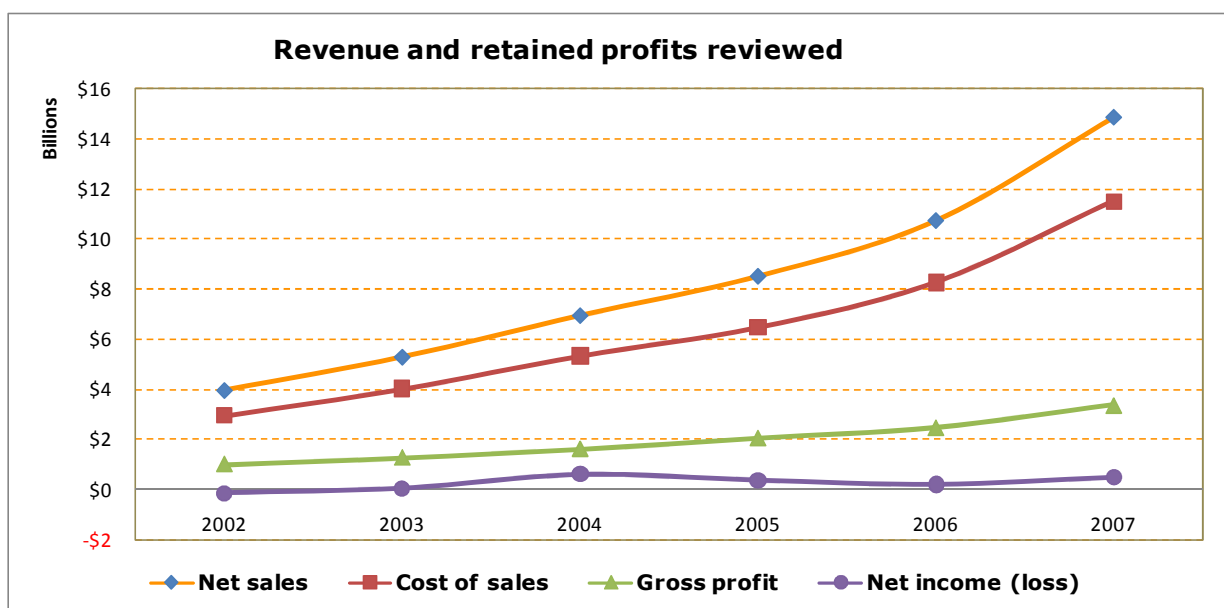


Figure 11: Revenue and retained profits reviewed

However, despite the year on year increase in sales revenue, the net income (blue line) trend shows that since 2004, reported profit (net income) decreased. Possible reasons for this trend are discussed below.

Year	Net Profit Margin (%)	Interest Coverage	Debt/Equity	Return on Equity (%)	Book Value/Share	Return on Assets (%)
2007	3.2	8.5	1.07	39.8	\$2.88	7.3
2006	1.8	5.0	2.89	44.1	\$1.04	4.4
2005	3.9	4.7	6.02	135.4	\$.59	9.0
2004	8.5	4.1	-8.18	-259.0	-\$.55	18.1
2003	0.7	2.1	-1.88	-3.4	-\$2.57	1.6
2002	-3.8	0.4	-1.69	11.1	-\$3.49	-7.5
2001	-17.8	-3.0	-1.51	38.7	-\$3.86	-34.0
2000	-51.1	-6.6	-2.22	145.9	-\$2.71	-66.1
1999	-43.9	-7.2	5.56	-270.4	\$.77	-29.2
1998	-20.4	-4.1	2.52	-89.8	\$.44	-19.2

Figure 12: 1998 – 2007 PERFORMANCE ANALYSED IN % TERMS

2004 – 2006; DROP IN NET INCOME ANALYSED

During the 2005 -2006 period, the company's decision to increase investment in technology and marketing by an extra \$662 million as well as increasing the marketing budget by an extra \$65 million would have contributed to the extended down turn of profits. Figure 12 shows net profit margin decreasing from 8.5% in 2004 to a very low 1.4 % within the space of 2 years. Such was the case until 2007 when the upward trend emerged once again; an indication that some form of recovery is on the horizon (Figure 11).

Importance: Amazon.com deemed investment into these two areas as critical in their bid to stay ahead of competitors. Payment of dividends to shareholders suffered as a result (0.46 cents per share in 2006 compared to 0.81 cents per share in 2005). Amazon.com will therefore need to consider such requirements and its implication on reported profit when orchestrating their desired strategic plan.

Gearing, Debt and Capital Structure

The gearing ratio above (debt/equity) shows the proportion of debt or long term borrowing to capital employed. In 2005, 82% of the company's finance was obtained through borrowing. Amazon reduced this to 68% in 2006. Such factors will need to be considered when considering our strategic options. Gearing leads to interest's payments, decreasing the reported profit levels. Amazon reduced their interest cost by \$14 million in 2006 as result of

the change in capital structure. Such progress has continued into 2007, with the company holding its lowest amount of debt to date since 1998.

Importance: New projects need to be financed and therefore the need to borrow externally and the implications of doing so should be considered by Amazon.com. Nonetheless, Figure 12 shows that interest cover has been increasing year on year. This ratio measures the ability to meet interest payments. Therefore, the 2007 figure of 8.5 suggests that Amazon.com can meet their interest payments eight and a half times over, a favorable ratio which will stand them in good stead if future strategies require the attainment of extra finance from debt providers.

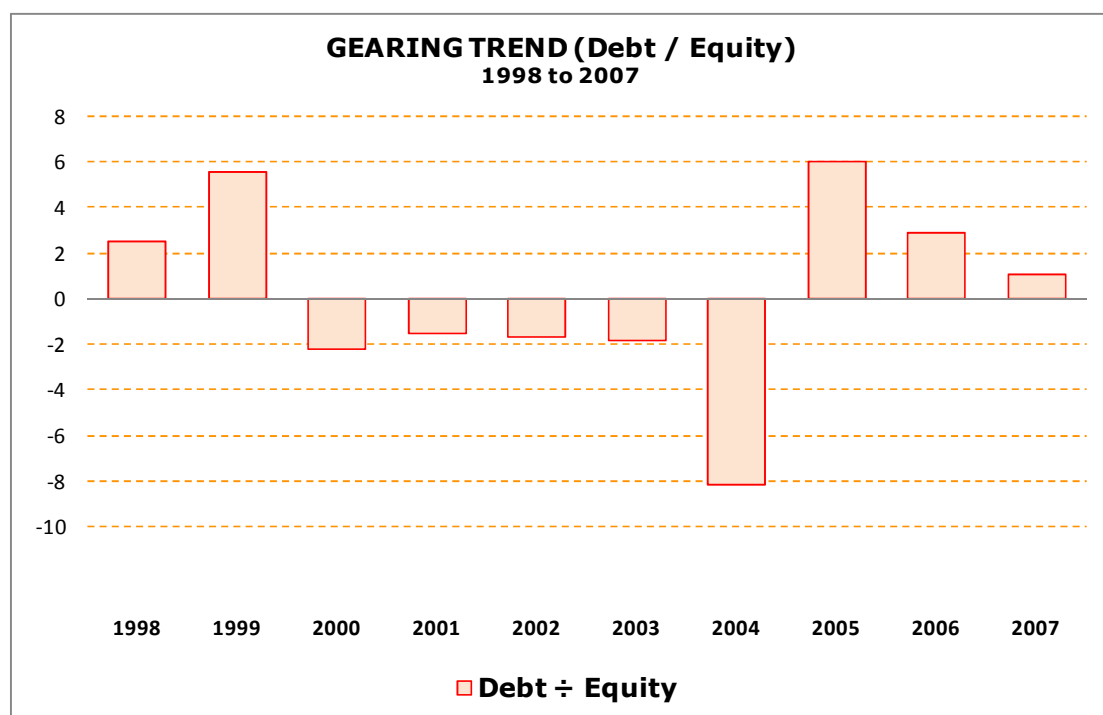


Figure 13: Gearing trend debt/equity

2.3 Summary of Analysis

2.3.1 SWOT Analysis

Drawing from the internal and external Analysis, we can summarise Amazon.com's strengths, weaknesses, opportunities and threats in the following SWOT Analysis. For a more detailed SWOT see Appendix 4.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Global brand • Focus on research and development • Strategic location • Customer-centric vision • Diverse products • Applied advanced technology • Amazon.com's Merchant Program • Skilled workforce • Strong logistics 	<ul style="list-style-type: none"> • No physical presence • Low profit margins • Low cash flows • Weak performance in China

Opportunities	Threats
<ul style="list-style-type: none"> • Growth in movie downloads • Social networking • Growth of online shopping in China • Beijing Olympics 2008 • Expansion through acquisitions • Growing e-commerce sales • Growth in digital media • Increased consumer spending in India 	<ul style="list-style-type: none"> • Dependent on vendors • Strong competition • Patent infringement

2.3.2 Key strategic issues to be addressed

In summary, we have drawn upon all of the techniques used in our analysis to highlight the key strategic implications for Amazon.com.

Analysis (Technique)	Key point	Strategic implications
PESTEL	Increased internet usage globally, increased environmental awareness, and differences in government policies.	Increased internet usage opens up new markets for Amazon.com globally, for example India. Strategies must take into account increasing environmental pressures and government requirements.
Porters 5 Forces	Increased competition	Amazon.com must sustain their competitive advantage.
Strategic Groups	Competition from e-retailers expanding their products and geographic scope.	Amazon.com's strategy must consolidate their market position.
Global Internet Trends	USA, China, Japan, Germany and India have the highest internet usage rates.	Amazon.com has a website tailored to all of these companies except India.
GE Matrix	China has the largest market	Performance needs to be

	but the weakest performance.	improved in China.
The Value Chain	Unique resources (specialised fulfilment centres, high investment in technology and centralised management of global IT operations).	Take advantage of these resources in the global market to remain competitive.
Resource Based View	Amazon.com's main competitive advantage is its CRM and website personalisation.	Amazon.com must work hard to maintain this as a competitive advantage.
Financial Analysis	Increased revenue year on year has not led to improved profitability.	Manage costs more efficiently.

3.0 Generation of options

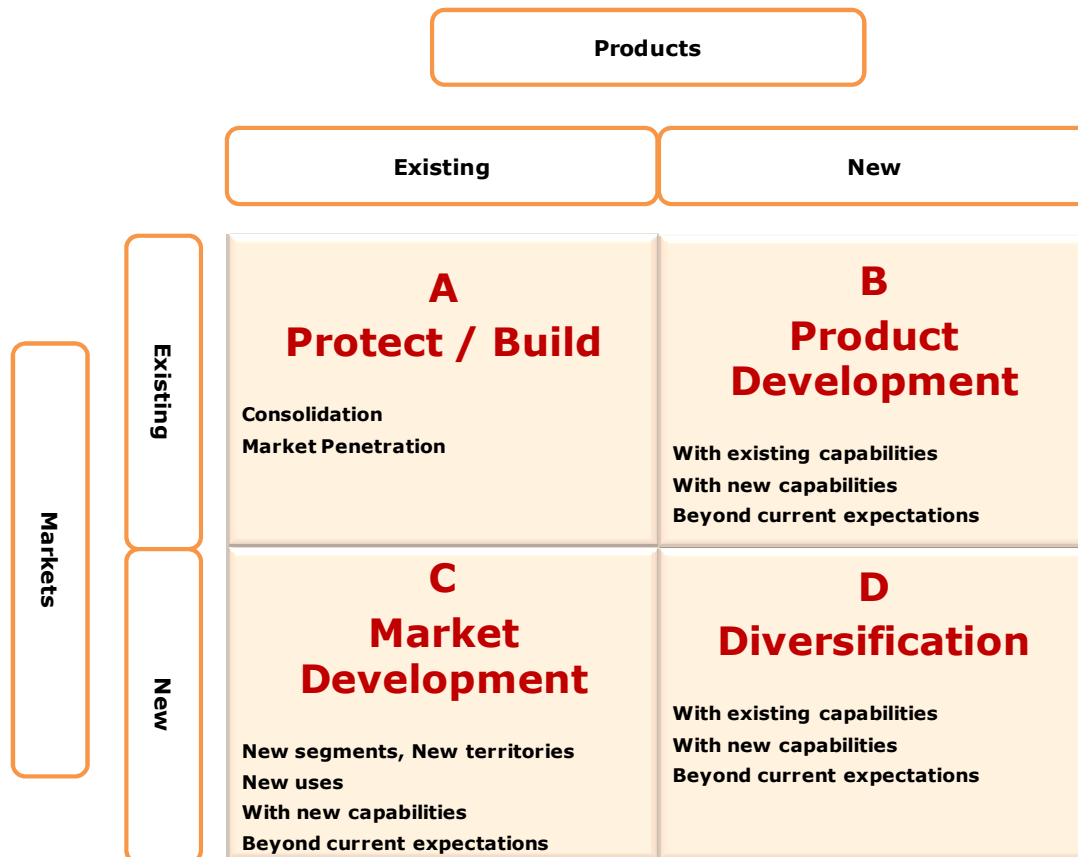
3.1 TOWS Matrix

TOWS matrix (Johnson et al, 2006, p347) enables the generation of strategic options by using the SWOT matrix.

				STRENGTH (S)			WEAKNESS (W)		
				STRONG GLOBAL BRAND S1	DIVERSE PRODUCTS S2	STRONG LOGISTICS S9	NO PHYSICAL PRESENCE OR STORE W1	LOW PROFIT MARGINS W2	
				STRONG FOCUS ON R&D S3	APPLIED ADVANCE TECHN. S4		LOW CASHFLOWS W3	WEAK PERFORMANCE IN CHINA W4	
				STRATEGIC LOCATION S5	ASSOCIATE PROGRAMME S6				
				CUSTOMER CENTRIC VIVION S7	SKILLED WORKFORCE S8				
OPPORTUNITIES (O)	BEIJING OLYMPICS O3	GROWING E-COMMERCE SALES O6		<ul style="list-style-type: none"> ❖ S1 + S9 + O6 = use such strengths to make sure as much of the new expected expenditure as possible is spent at amazon.com ❖ S2 + O6 + O8 = Keep diversifying to increase probability of predicted expenditure occurring on amazon.com ❖ S6 + S9 + O6 = Diversify into new markets via association ❖ O2 + S6 + S1 = Promote amazon.com by such means. ❖ O5 + S6 = Combine these to gain greater market share 				<ul style="list-style-type: none"> ❖ W4 + O4 = Review and improve on current strategy in China. ❖ O8 + O6 + W2 = Tap into these in a bid to increase profit margins. 	
	GROWTH IN SOCIAL NETWORKING O2	RECENT ACQUISITIONS O5	INCREASED CONSUMER SPENDING IN INDIA O8						
	GROWTH IN MOVIE DOWNLOADS O1	GROWTH IN INTERNET USAGE IN CHINA O4	GROWTH IN DIGITAL MEDIA O7						
THREAT (T)	VERY COMPETITIVE MARKET T2	PRESSURE GROUPS ON BEING ENVIR-ONMENTALL FRIENDLY T4		<ul style="list-style-type: none"> ❖ S9 + T4 = Improve current delivery process to be more environmentally friendly ❖ S1 + S2 + S9 + T2 = Use these to remain competitive 				<ul style="list-style-type: none"> ❖ W2 + T2 = improve this in order to stay ahead of rivals ❖ T3 + W2 + W3 = reduce such disputes to improve increase retained earnings 	
	HUGE DEPENDENCE ON VENDERS T1	INVOLVEMENT IN PATENT VIOLATION DISPUTES T3							

3.2 The Ansoff Matrix

We have used Ansoff's Product/Market Matrix (Ansoff 1988, cited in Johnson and Scholes 2006, p341) to identify directions for our strategic development.



3.3 Strategic Options

3.3.1 Strategic Option 1: Market Development - Acquire a growing, profitable e-retailing company in India to take advantage of the growing market.

Suitability

- The PESTEL analysis reveals consumer spending is rising in India (*Times Online*, 2007)
- From the analysis of global internet trends India ranked as the fifth highest in Internet usage (*Internet World Stats*, 2007)
- Government policy has targeted three million broadband users, therefore increasing consumers' likeliness to shop online (*Euromonitor*, 2007)
- From the strategic group's analysis competitors such as Wal-Mart and Tesco aim to increase their geographic scope and thus may enter the Indian market (*Research and Markets*, 2005). Therefore it is vital for Amazon.com to gain from first mover advantage to establish its presence

Feasibility

- The SWOT (Appendix 4) reveals that one of the strengths of Amazon.com is the experience and knowledge in successful acquisition and integration such as booksurge.com and dpreview.com and Brilliance Audio
- Amazon.com need to borrow to finance the acquisition, which may be problematic as they are already highly geared at 68%
- By acquiring an Indian e-commerce company they will also be acquiring the local knowledge

Acceptability

- Internet users are forecasted to increase 254% from 2006 to 2015, presenting a growing market and, therefore reducing risk and increasing the potential of high returns (*Euromonitor*, 2007).
- Shareholders are more favourable towards long- term investments, such as this strategy therefore there is a higher chance of acceptability (CEO Letter to Shareholders, Amazon.com 2006 Annual Report, see Appendix 5)
- By acquiring a company there is the risk of cultural conflict

3.3.2 Strategic Option 2: Service Development - Providing a 'greener' delivery option.

Consumers will be given the choice of selecting the standard delivery option or the 'greener' delivery option. The 'green' option means that the items will be delivered in a biodegradable plastic container. The consumer will be encouraged to return the box after use in return for a 'green point'. After collecting a certain amount of points, the consumer will be sent an e-voucher to be spent at Amazon.com. Boxes will be re-used by Amazon.com in future deliveries, which in the long-term will reduce cost of packaging and ensure less wastage.

Suitability

- This strategy will address the issue of increased environmental awareness, as highlighted in the PESTLE analysis.
- This is an important issue for the e-retailing industry as all products need to be sent to customers.
- This strategy builds on Amazon.com's past efforts to maintain environmental awareness as highlighted in the Resource Based View analysis.

Feasibility

- Biodegradable plastic containers, whilst currently available, will require extensive research by Amazon.com to ensure that all products can be transferred safely to consumers. Amazon.com has an active research and development department which can be utilised for this purpose.
- Amazon.com has highly experienced workers (as shown in the Value Chain) who should be able to create and manage the new 'green points' system and e-vouchers.

Acceptability

- There is a risk that the consumers will not return the boxes for re-use. The cost-benefit mentioned above will therefore not be obtained.
- As society becomes more socially aware, consumers will want to make a difference through their packaging choice.
- Governments may take an interest in the greener initiative and may support Amazon.com in some capacity.
- Value creation and the possibility of reduced costs should lead to increased returns for shareholders.

3.3.3 Strategic Option 3: Product Development

This option recommends the addition of prescriptive contact lenses to Amazon.com's product range.

Suitability

- Competitor analysis has identified that Wal-Mart.com and Tesco.com offer this service, so by choosing this strategy Amazon.com will be able to be competitive.
- The US market for eyeglasses and contact lenses has grown by 3.8% since 2003 to reach a value of US\$19.2 billion in 2004 (see Figure 14)
- An estimated 60% of the US population requires vision correction. This number is expected to grow as more consumers spend more time working with computers (Euromonitor, 2008).
- The graph below shows the increase in contact lenses in the geographic regions where Amazon.com has a presence.

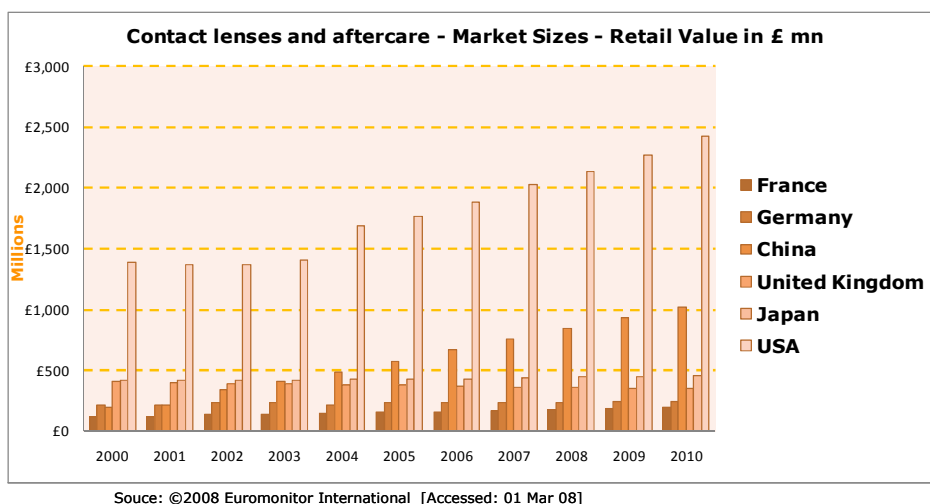


Figure 14: Market sizes for contact lenses and aftercare

Feasibility

- Amazon.com's value activities (as explained in Value Chain Analysis) include successful co-operation and joint ventures with other companies. In the case of contact lenses a partnership with healthcare professionals is important.

Acceptability

- Sales of optometric products will increase customer choice in healthcare goods.
- The initial investment for this option will be high, however, long-term profitability reduces the overall financial risk associated.

3.3.4 Strategic Option 4: Market Penetration in China

Amazon.com entered the Chinese e-commerce market in 2004 by taking over Joyo.com (*China IT & Telecom Report*, 2007). However, as the GE matrix indicates, Amazon.com is underperforming and has lost its position as market leader (Dean, *The Wall Street Journal*, 2006). In order to address this underperformance, the options below attempt to build a stronger brand image and increase market share.

	Implementation	Market Goal
Option1	Extensive marketing through various medium e.g. TV, outdoor, Press and Radio	Raising awareness and brand building
Option2	Increase product range and suitability through introducing the Merchant Programme.	Increasing market share and sales

Suitability

- The PESTLE analysis reveals a high economic growth in China and high consumer spending
- Global internet trends shows that China has the second highest internet usage in the world
- In the GE matrix, China is the most attractive market for Amazon.com

Feasibility

- Amazon.com has the resources in skills, experience and knowledge to undertake global operations successfully as demonstrated in the UK, German and Japanese markets
- Market penetration into China will be less capital intensive than entering a new market
- Amazon.com has successfully implemented the Merchant Program in the U.S.

Acceptability

- Amazon.com's investments in China must be fully harnessed to exploit the market potentials thus reduces financial risks
- The Merchant Program will create value for the Chinese consumers since it increases the chances of local merchants to sell specialised or local products
- Penetrating the Chinese market will have long term benefits which increases shareholder value

3.3.5 Strategic Option 5: Market Development – Setting up a sales facility via the social networking website, Facebook.



Amazon.com could develop a presence on Facebook to boost digital media sales. This would involve teaming up with Facebook to create an Amazon Application. Digital media such as films, mp3s and e-books would be sold via the Amazon Application and purchased goods would be accessed through Facebook profiles. The Amazon Application will allow users to create wish-lists that can be sent to friends and family.

Facebook is a global social networking site which is currently undergoing a huge period growth with more than 150,000 new users sign up daily (TIME Online, 2007); with 44% of US consumers using social networking at least once a month in 2008 (Publishers Weekly, 2008 p16).

Suitability

- This strategy will take advantage of the continued growth in social networking websites (as shown in the PESTEL Analysis).
- Gain access to large customer base (Facebook has over 30 million active users) that Amazon.com can target
- This strategy will also help to increase awareness and boost sales of digital media.

Feasibility

- Amazon.com already has the technology to sell digital media online.
- Facebook may not allow Amazon.com to have a presence on the website.

Acceptability

- This strategy should boost sales of digital media which will increase profits, therefore pleasing the shareholders.
- Users of Facebook will be able to purchase digital media whilst they are on the social networking website. This provides a quick and easy service for the consumer.

3.3.6 Strategic Option 6: Market Development into Scandinavia

Scandinavia is made up of four countries, namely, Denmark, Finland, Norway and Sweden with a combined population of 25 million (Euromonitor, 2008).

Suitability

- Amazon.com demonstrates a well functioning routine in outbound, operations and inbound logistics as highlighted in the Value Chain Analysis earlier in this report.
- This option will attempt to address the lack of geographical scope in comparison to its competitors
- Exploit the internet and technological infrastructures and skills in Scandinavia (Copenhagen Capacity, 2008)
- Global internet trends (Figure 6) show that Europe has the largest internet retail spend and a presence in Scandinavia will provide a significant brand presence in Northern Europe

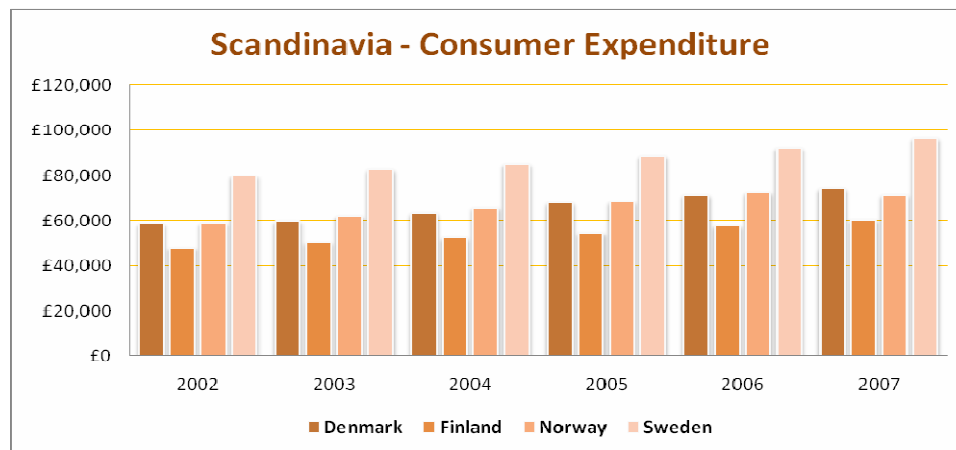


Figure 15: Consumer spending in Scandinavia

Source: Consumer expenditure: National statistical offices/OECD/Eurostat/Euromonitor Interr
Date Exported (GMT/BST): 18/02/2008 23:25:08 ©2008 Euromonitor International

Feasibility

- The four markets can be served by a single distribution centre in the region of Skåne as shown in Figure 16
- The four airports, seven harbours and logistic expertise in Skåne can be easily exploited and integrated with the value chain activities of Amazon.com
- Modern ICT and IT infrastructures to support services

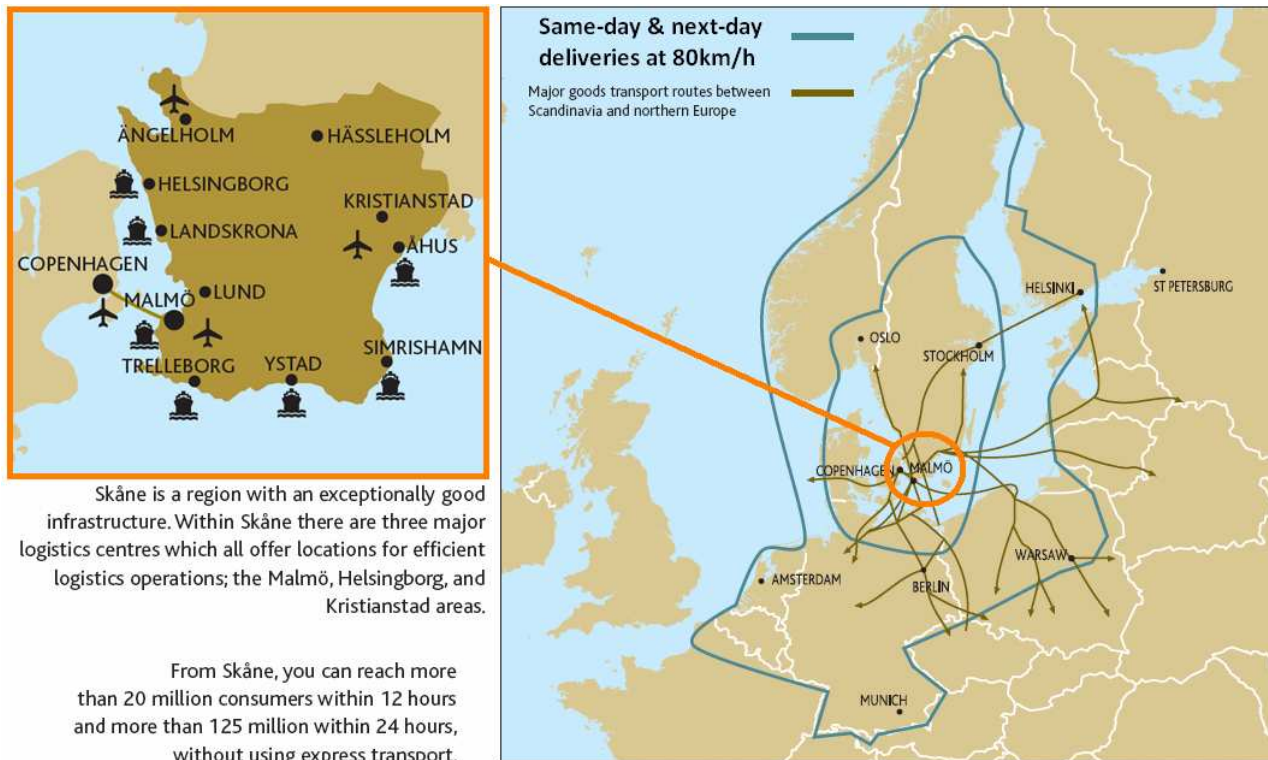


Figure 16: Skåne region

The figure above shows the proximity of Skåne region to rest of Scandinavia (30 minutes from Danish capital, 8 hours from Oslo and 22 hours from Helsinki).

Acceptability

- The Scandinavian nations are known to be very price sensitive when shopping online. This option would mean Amazon.com will have to compete strongly in price
- Additionally, having to deal with 4 different countries with different currencies will mean, that Amazon.com will have to carefully manage exchange rates so as to reduce risks in price fluctuations.
- Due to the high internet adoption rate in the Scandinavian region, the online audience is more experienced; therefore differentiation and value-creation services (such as quick delivery and easy payment) options will be necessary and this increases the risks.

4.0 Choice process

The strategic options generated above are evaluated against a set of criteria including suitability, feasibility and acceptability. These criteria help us to justify why some strategies might succeed better than others (Johnson *et al*, 2006). Our second set of criteria (section 4.2) permits the measurement of the strategic options against the key strategic issues and priorities from the analysis above.

4.1 Evaluative Criteria

Evaluative Criteria		1. Market Development in India	2. Service Development – 'Greener' Delivery Option	3. Product Development – Contact Lenses	4. Market Penetration in China	5. Market Development through Facebook	6. Market Development in Scandinavia	
Suitability	Fit with capability	4	4	10	10	7	4	
	Fit with environment	8	6	6	10	7	6	
Acceptability	Return on capital employed	7	4	6	8	8	5	
	Payback period	5	4	4	7	4	7	
	Risk associated	2	4	5	6	5	4	
	Stakeholder reaction	Consumer	5	8	6	8	8	6
		Shareholder	8	5	3	8	6	8
Employee		8	6	3	6	5	4	
Feasibility	Financially	2	4	6	7	8	4	
	Technically	7	6	10	7	10	8	
	Cost effectiveness	3	5	6	7	7	8	
Total Marks		60	56	65	84	75	64	

4.2 Evaluative Criteria

(Adapted from Johnson et al, 2006 p362)

Strategic Option	Key Strategic Factor					Increased internet usage (Opportunity)	Ranking
	Global brand (Strength)	Advanced technology (Strength)	Diverse product/service portfolio (Strength)	Strong logistics (Strength)	Low profit margins/cash flows (Weaknesses)		
1. Market Development in India	☑	☑	☒	☒	?	☑	B
2. Service Development - 'Greener Delivery Option	☑	☑	☒	?	?	?	C
3. Product Development - Contact Lenses	☑	☑	☑	☑	?	☑	A
4. Market Penetration in China	☑	☑	☑	☑	?	☑	A
5. Market Development through Facebook	☑	☑	☑	☑	?	☑	A
6. Market Development in Scandinavia	☑	☑	☒	☑	?	☑	B

☑ = Favourable

? = Uncertain or irrelevant

A = Most suitable

C = Unsuitable

☒ = Unfavourable

B = Possible

4.3 Strategic Choice/Justification

Our evaluative criteria have identified three viable strategic options; Market Development in China, Product Development (contact lenses), and Market Development through Facebook.

This report recommends that Amazon.com should focus on improving its performance in China through market penetration. This can be justified by China being one of the largest consumer markets in the world and has the potential to grow even larger. Today 77% of urban Chinese households live on less than 25,000 RMB a year. It is estimated that by 2025, this percentage will drop to 10% (Farrell, Gersch and Stevenson, 2006). This indicates that it would be wise to improve Amazon.com's performance in China now so that it can take advantage of this growth in years to come.

With regards to competition in China, the current market leader, Dangdang.com's 3 year strategy of selling at the lowest prices (even if it resulted in a loss) was due to end in 2007. (Infomaticsonline, 2007). Therefore, it is recommended that Amazon.com act now in order to take advantage of this change of strategy.

Amazon.com have already spent millions in gaining access to the Chinese market and so we recommend that Amazon.com aim to improve performance here before investing heavily in other foreign markets (China Business Feature, 2008). This justifies why we do not recommend going to India or Scandinavia at this time.

According to a recent letter to shareholders (see Appendix 5), Amazon.com only invest in areas which promise a significant return and "impact on the overall company". With this in mind, it is clear that China has the potential to give Amazon.com the largest return and have a greater impact on the overall business compared to developing contact lens sales and selling through Facebook.

From the PESTEL analysis constructed for China (See Appendix 6), Amazon.com can highlight the environmental factors affecting the company performance in China and identify the most important at the present time and the long term. The main issues affecting Amazon.com's performance in China have been presented below:

Main problems identified:

1. Dangdang.com's strategy in overtaking joyoamazon.com as the market leader was heavily influenced by price war (Sinocast, 2004).

2. Amazon.com lacks cultural awareness of the Chinese population (Dean, The Wall Street Journal, 2006).
3. China's internet regulators have made it difficult for foreigners to participate fully, giving local Chinese e-retailers an advantage from the offset (Dean, The Wall Street Journal, 2006)

Strategic Objectives

- Regain the status as the market leader by increasing market share from its current position of 16% to 24% within the next 2 years.
- Improve knowledge and cultural awareness of the Chinese population, implementing services which best suits the Chinese market.
- To secure at least ten merchants for the Merchant Program within the first year

Final Remarks

The global-local dilemma theory relates to the extent to which products and services may be standardised across national boundaries or need to be adapted to meet the requirements of specific national markets (Johnson et al, 2006). This is a key area which needs to be resolved by Amazon.com before the identified potential advantages of operating in China can be fully realised; Amazon.com's strategy must be locally responsive.

5.0 Implementation

We recommend that Amazon.com take the following actions to achieve the strategic objectives:

5.1 Marketing Strategy

Local brands in China have had much more success in advertising than foreign ventures (Tai, 2007). It is a complicated place to advertise in China as there are varying region regulations and various promotional channels, such as 3000 television channels and 1,000 newspapers (Tai, 2007). Chinese consumers also find that many advertisements are boring so it is important that any advertising in China is appealing (Tai, 2007).

There are many channels of promotion JoyoAmazon.com can use:

Beijing Olympic Games 2008 – Depending on how quickly the promotion strategy can be implemented, this event is a worldwide and national event. Association with this in China will lead to national and international awareness of JoyoAmazon.com.

Sponsorship – Sponsorship of sports events that are popular and Chinese consumers find exciting, such as the China Tennis Open.

Advertising – Regional Advertising, making advertisements fun and exciting.

Sales Promotion – Short term incentives used to encourage sales, for example discounts for a limited time only.

5.2 Merchant Program

A way for Joyo Amazon to align more successfully with the Chinese consumer culture is to implement Amazon.com's Merchant Program that runs successfully in the USA. External companies can buy square metres of warehouse space to hold their stock or they can process the orders themselves. Amazon.com then sells the external company's stock via their website. This would overcome the competition from domestic Chinese rivals, which know the customers better, have long-established business relationships in local markets, and compete relentlessly on price (Hexter and Woetzel, 2007). Overall this strategy should allow Joyo Amazon to be more locally responsive. =

5.3 Configuration

Configuration is a key factor in order to ensure the chosen strategies are implemented smoothly and maintained (Johnson et al., 2006).

Each of the elements of configuration as illustrated in the diagram below, are discussed in the following sections.

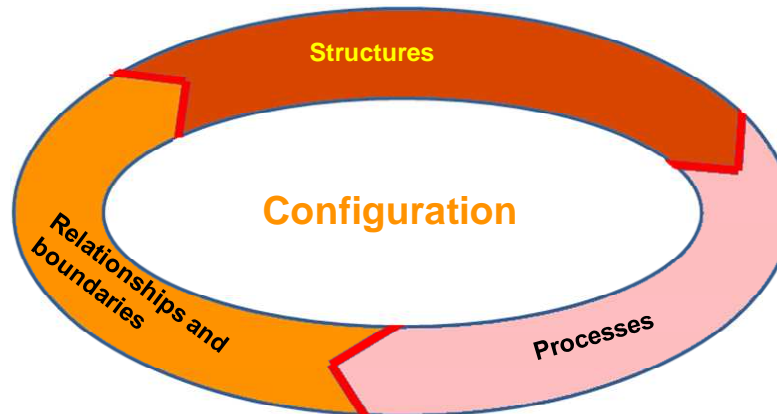


Figure 17: Strategic configurations

5.4 Structure

As firms go international, De Wit and Meyer (2005) argue that their strategies must address two dimensions of the international business context. Should they configure their structures, resources and processes in order:

- “To **adapt** to the international diversity encountered” or
- “To **overcome** the constraints imposed by distinct national systems, structures or behaviours”? (p223)

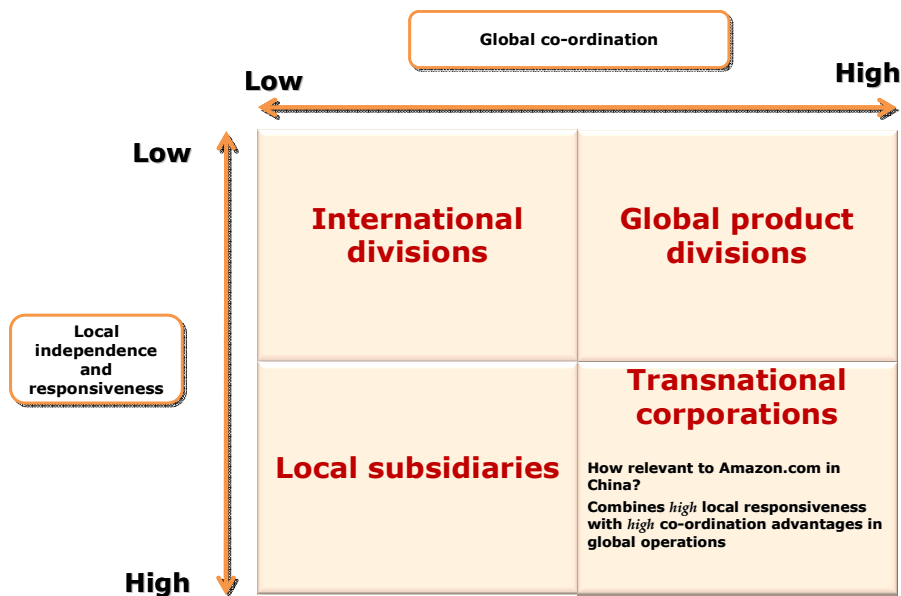
Considering the current challenges faced by Amazon.com in China, such as tough market competition and price war with Dangdang.com (SinoCast China IT Watch, 2004), and unsuited banking and payment systems (China Business News On-Line, 2004), it is important the market penetration strategy exploits internal expertise in order to adapt to local challenges. Structuring of Amazon.com plays an important role in the internal co-ordination of functions, responsibilities and lines of reporting so as to achieve the competitive edge in the Chinese e-retailing market.

By analysing the ‘dimensions’ of globalisation as argued by De Wit and Meyer (2005), it can be argued that the notion of ‘*worldwide similarity*’ and ‘*worldwide integration*’ (p224) do not

provide the right framework for market penetration in China by Amazon.com. These notions purport globalisation as *the reduction in variance* (i.e. the products consumed by Chinese consumers are similar to Western consumers) and as *the integration of markets* (i.e. tastes and subtle differences of local markets are overshadowed by global interconnectedness). The argument here is that Amazon.com’s structure should reflect the notion that globalisation is the geographical expansion into local markets with special needs to be met. Thus the recent difficulties faced by Amazon.com can be better encountered by adapting structures to meet local needs of China.

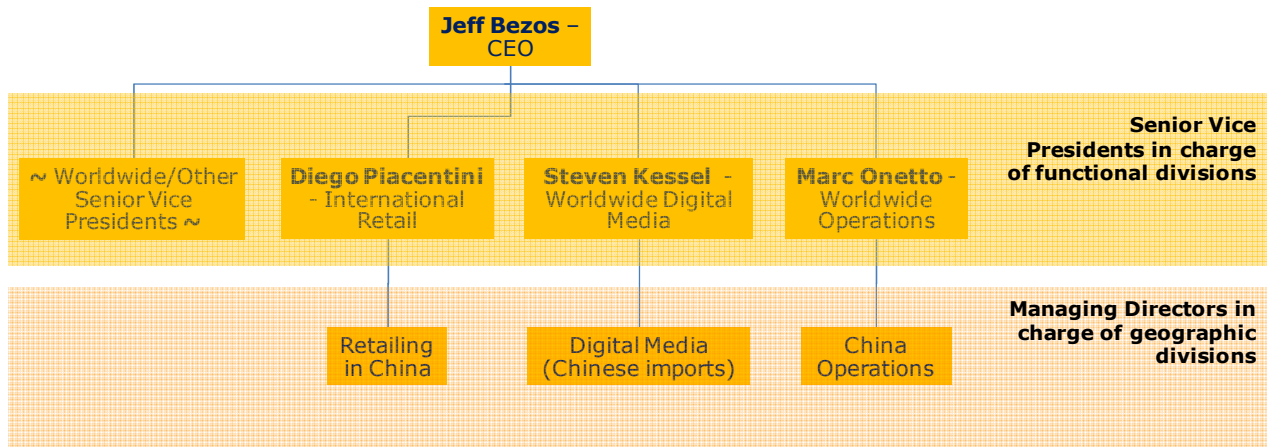
Bartlett and Ghoshal (1989) proposed the integrated network (or Transnational) model to structure organisations where country subsidiaries have close relationships with international headquarters but also have strong relationships with other subsidiaries. The advantage of Amazon.com adopting such a model is to:

- Balance the need for global standards and devolved decision making
- Balance local independence/responsiveness with global co-ordination
- Enable large flow of information, people, resources and best practices
- Enable shared strategic decision making between international headquarters and local subsidiary



The diagram above is adapted from Bartlett and Ghoshal (1998) and illustrates the 4 structural models that emerge between local responsiveness and global co-ordination relationships.

In the diagram below, the bottom row refers to the level of local Managing Directors who have expertise of the Chinese market and consumer tastes. The table shows what kind of roles, responsibilities and reporting structures will have to support such a model in a Chinese market penetration strategy.



	Responsibilities	Roles	Information role	
Senior Vice Presidents in Seattle HQs	International Retail	Increase global competitiveness of Amazon.com as a retail brand	Protect global brand Driver of service innovations	Inform local directors of standards and best practices
	Worldwide Digital Media	Align product offering from various subsidiaries into a single value proposition (e.g. products should match market needs)	Global management portfolio of categories, products and services	Design categories and inform local directors of product gaps
	Worldwide Operations	Increase co-ordination in international operations to enable increased value and reduced cost	Reduce the transaction costs of global and cross-border activities. Exploit economies of scale	Dissemination of standard processes and methods to achieve efficiency
Managing Directors in China	Retailing in China	Implement a locally focused marketing strategies which are responsive to Chinese consumer culture	Protect Amazon.com brand in China Contribute by creating centres for local excellence	Report on specific and subtle needs of Chinese market (knowledge provider)
	Digital Media (Chinese	Selecting the right mix of local and international media products that can both meet	Design unique and innovative product mix to appeal local market	Report on market performance on imported media

	imports)	local needs and Amazon.com value proposition such as free DRM Mp3's or free delivery relative to spend	Carry-out change initiatives in product development	and local media products to headquarters
	China Operations	Strategic selection of location of fulfilment centres that can leverage local reach and also be accessible by international transport	Design local value chain activities by exploiting economies of scope Control cost of operations	Report to headquarters on efficiency and effectiveness of global operations strategy

The above table shows how the co-ordination of global activities by Senior Vice Presidents at the headquarters is complemented and do complement the local activities of local Managing Directors. Such a structure could be justified because it promotes knowledge sharing, collaboration between divisions (Johnson *et al*, 2006), it takes advantage of local markets, the corporate headquarters provides an appropriate parenting role and there is clear accountability (Goold and Campbell, 2002).

5.5 Processes (controls)

In order for the structures prescribed above to function appropriately, the processes and controls that underlie such structures will shape the strategic actions to be carried out by Directors and Managers. In this section, key processes and control mechanisms that can enable the structures and strategies to be implemented are explored. Johnson et al (2006) assert that in order to implement strategic intents, control processes can either be used as inputs or outputs and directly or indirectly. The table below indicates which processes must be well controlled in order to implement the structures above.

	Input	Output
Direct	Direct Supervision↓ Planning processes↑	Performance targeting→
Indirect	Cultural processes↑ Self-control↑	Internal markets→

→ Equitable emphasis ↑ Emphasis needed to achieve goals ↓ Such controls should **not** prevail

Direct supervision as a 'direct-input' control process is not recommended since knowledge on the local market resides in the employees in China and thus these employees should be

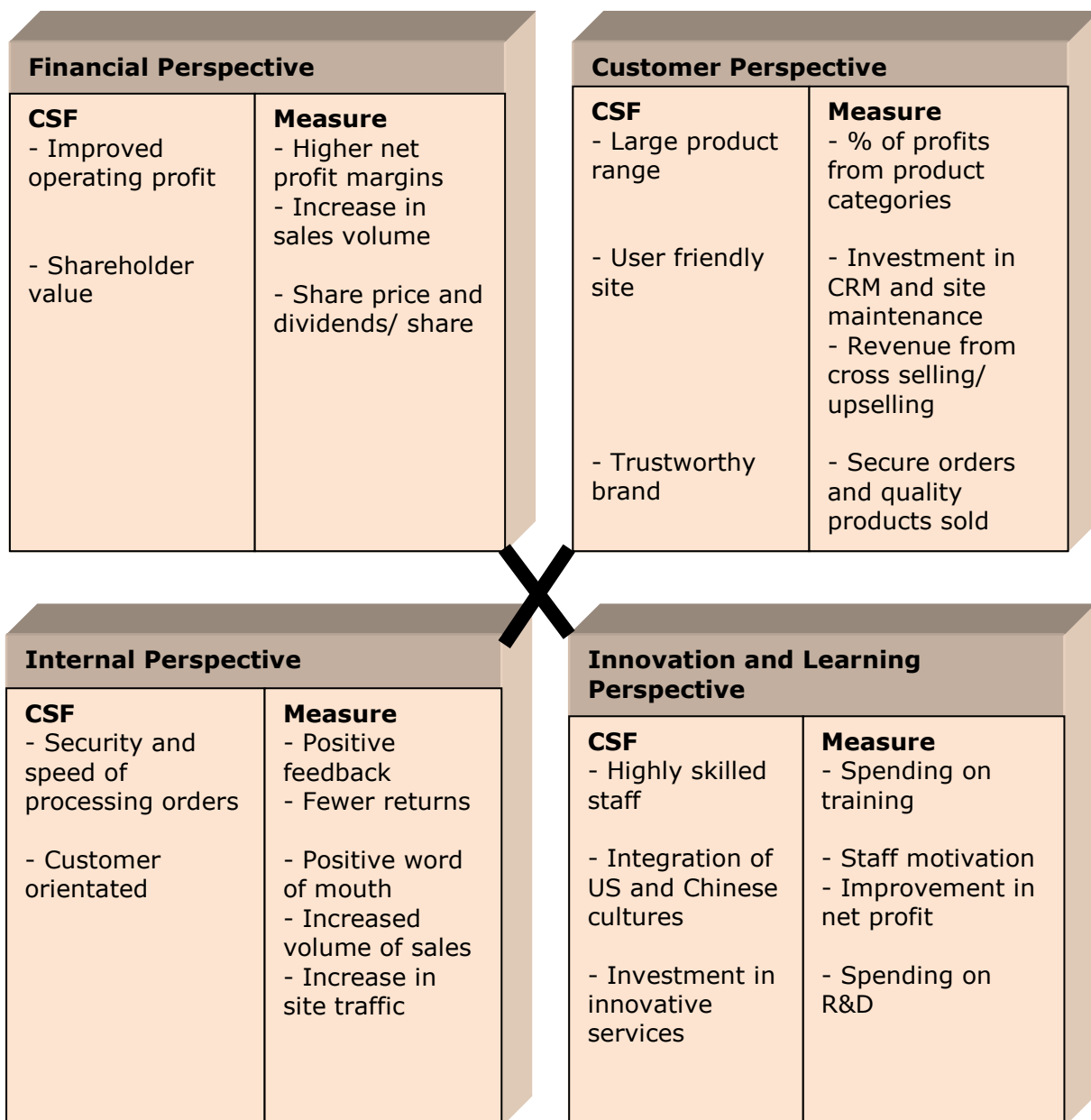
empowered to take appropriate action. It is thus suggested that 'indirect-input' control processes of self-control and personal motivation should be emphasised. The headquarters of Amazon.com must therefore ensure that Chinese employees have the right channels to interact, are properly supported and are encouraged to take leadership roles within the organisation structure.

However, due to the global nature of this strategy implementation, the planning process must have a 'direct-input' and a shared perspective so that processes can be standardized, reporting systems can be integral to work processes and that accounting systems and budgets are consistent. This reduces the risks of misrepresentation, miscalculation and errors by commission. Cultural processes which are 'direct-input' should be encouraged from corporate headquarters by instilling a collaborative culture within the whole of Amazon.com so that knowledge of local and global markets can be shared through informal and formal channels of communication. Training and development and intercultural awareness are also important inputs to be controlled so that Amazon.com employees have shared norms or "a common set of reference points" (Johnson *et al*, 2006).

The use of performance targets and internal markets as controlled outputs will depend heavily on the early success of the strategy. For example using market processes such as Service Level Agreements is very much dependent on a wider context of market principles and transaction costs (Larson, 1998). In conclusion, the level of control processes should be very 'input-oriented' and should be steered from the headquarters in Seattle while taking into consideration inputs from Managing Directors in local markets.

5.6 Balanced scorecard

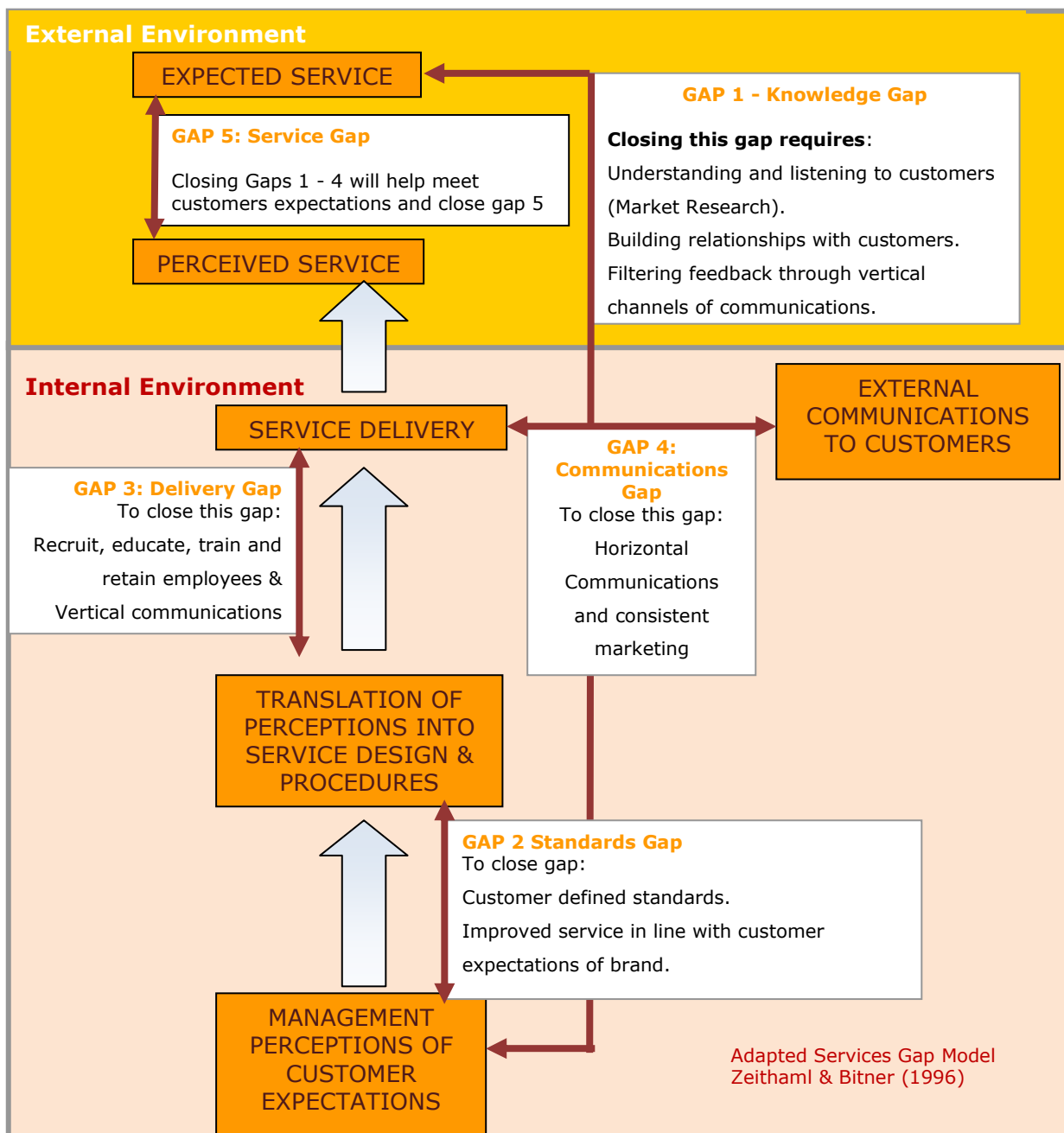
The balanced scorecard can be used to measure Amazon.com’s performance in China to assess what improvements have been achieved (Johnson & Scholes, 2008). Performance is judged against the outcomes of relevant success factors, which have been identified below (Garrison et al, 2003). Using the balanced scorecard is vital in performance measurement, as Amazon.com are able to “track financial results, while simultaneously monitoring progress in building their capabilities and acquiring the intangible assets needed for future growth” (Kaplan & Norton, 1996, p150).



5.7 Relationships

In order for our recommended strategy to be implemented effectively, it is important that both internal and external relationships are built and maintained in ways that are fluid enough to respond to an uncertain environment (Johnson et al, 2006 p421).

One of the objectives of our recommended strategy is to improve the fit between Joyo Amazon and China’s consumer culture. In order for this to be achieved, Amazon Joyo will have to concentrate on the needs and wants of the Chinese consumer. Amazon Joyo can use the Service Gaps Model (Zeithaml and Bitner, 1996) to achieve this.



If Joyo Amazon are to implement a successful Merchant Programme in China, they will need to build strong relationships with the local companies who will sell via the Joyo Amazon website.

5.8 Gantt Chart for marketing strategy

A Gantt chart is a key tool for planning and monitoring tasks. The below chart for Joyo Amazon’s Marketing strategy will plan tasks and the duration it should take.

Marketing Strategy	Months												
	Month 2	Month 4	Month 6	Month 8	Month 10	Month 12	Month 14	GO Live once plan is complete	Month 16	Month 18	Month 20	Month 22	Month 24
Timing													
Planning													
Market research into promotion strategies in China	█	█											
Evaluate methods of promotion			█	█									
Plan implementation strategy					█	█	█						
Implementation													
Launch Advertising with Olympics									█	█			
Launch Advertising campaign										█	█		
Sponsorship of events in China												█	
Launch Sales Promotion campaign										█	█		
Evaluation													
Evaluate progress throughout													█

Gantt chart for Merchant Program

Merchant Program	Months												
	Month 2	Month 4	Month 6	Month 8	Month 10	Month 12	Month 14	Month 16	Month 18		Month 20	Month 22	Month 24
Timing													
Planning													
Market research into possible Merchant traders	█	█											
Evaluate the traders			█										
Contact Merchant			█										
Build strategic alliances with Merchants				█									
Agreement in place with Merchants					█								
Plan Implementation					█								
Implementation													
Re-Design website with merchants						█	█	█					
Re-Design warehouse if merchants require						█	█						
Testing													
Promotion strategy										█			
											█	█	
Evaluation													
Evaluate progress throughout	█	█	█	█	█	█	█	█	█		█	█	█
													█

GO LIVE ONCE TESTING IS COMPLETE

5.9 Stakeholder Management

It is important to assess the expectations of different stakeholders and the extent to which they are likely to seek influence over Amazon.com’s strategies. To do this we have used stakeholder mapping which will underline how interested each stakeholder group is to emphasize its expectations on the specific strategy and also whether the stakeholder has the power to do so (Johnson et al, 2006). The different stakeholders have been summarised in the table below adapted from Johnson et al (2006):

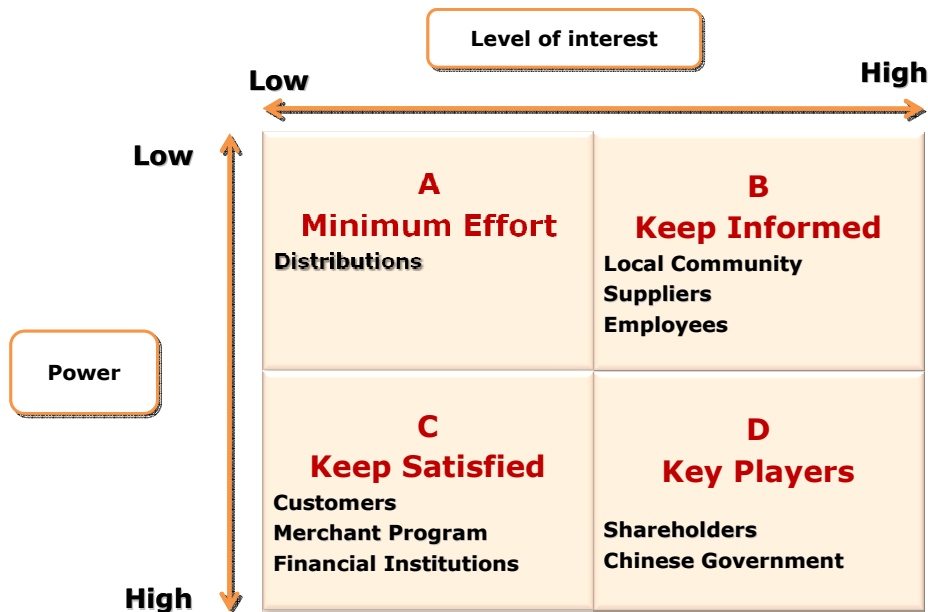


Figure 18: Stakeholder management matrix

Shareholders

It is important to have the shareholders’ full support in market penetration in China. The Chinese market has the potential to yield long term investments. However, keeping shareholders well informed of the possible risks and the possible length of time before any expectations of financial returns is very important. Such an action may reduce any future conflicts that may arise, such as cash flow, pay levels and short term losses.

Chinese Government

Amazon.com must comply to regulations and restrictions imposed by the Chinese Government (Dean, *The Wall Street Journal*, 2006) such as promoting local e-retailers.

Chinese retailers in the Merchant Program

Keeping the Chinese retailers that participate in the Merchant Program satisfied is an important part of making the penetration in China a success. When introducing the Merchant Program, it

is important that such activities with local retailers should meet the quality standards of Amazon.com and make sure the brand reputation of Amazon.com is not tarnished.

Financial Institutions

Amazon.com is currently highly geared as shown through the financial analysis. In order to implement strategies to penetrate into China, substantial investment will be required. If this finance is not available internally, then external sources may have to be established, therefore this gives financial institutions power to refuse finances or to impose higher interest rates.

Customers

Customers must benefit from the Merchant Program through an integrated shopping experience, and the marketing must effectively reach these Chinese customers. Customers should be informed of all new plans in order to increase acceptance. It is important that Amazon.com attempt to increase their interest through various primary market researches as this will give Amazon.com an indication of what the customer's expectations are.

Employees

The strategy to penetrate in China will affect employees as work may be increased or decreased through the Merchant Programme. It is important that all employees are kept well informed of any new businesses, products and restructuring of the company. They will decrease any resistance to change that may occur. It is important to have the support of the employees and if they feel neglected in the whole process then they may feel like their input is not valid. If employees are well informed they may also be more accepting in receiving lower bonuses due to the investment in the new strategy.

Local community

Although the local community may appear to have little power at the moment, this could change if negativity and disagreement to strategies increase substantially creating a stronger local force. Amazon.com should also encourage the local traders involved in the Merchant Programme keep the local community informed of developments.

Distributions

As the strategies do not involve any major changes to the distribution of products, this department can be given minimum effort. The Chinese Postal Service and other private delivery services are key stakeholders in this regard. Since both businesses complement each other, little effort is needed. However, the sharing of logistical information for tracking goods could greatly enhance this relationship.

5.10 Monitoring Success

Planning and control will be derived by a top down management approach. Each strategic objective as identified in section 4.3 will be measured as follows.

Objectives	Measurement
Regain the status as the market leader by increasing market share from its current position of 16% to 24% within the next 2 years.	Industry analysis
Improve knowledge and cultural awareness of the Chinese population, implementing services which best suits the Chinese market.	Market Research Brand position
To secure at least ten merchants for the Merchant Program within the first year	Review Merchant Program

6.0 Critique of strategy

As identified in section 1.1, we have used the Design School model of formulation to recommend market penetration in China. The Design School model approach is limiting in the sense that it takes too general an approach to strategy formation (Mintzberg, 1990, p181). This has benefited us as it has allowed us to formulate a strong and justified strategy within the confines of the report. However, it has also meant that we have not been able to take a more profound approach.

Therefore we recommend that Amazon.com take into account the following implementation issues:

6.1 Financial

Amazon.com currently has a 68% gearing level. This may limit the amount they can spend on the marketing strategy and the number of merchant traders on the Merchant Program.

6.2 People

The recommended strategy may require Amazon.com to increase its workforce in China and re-align their HR strategy to accommodate this increase.

Conflict may arise when integrating the two cultures and structure.

6.3 Legal Issues

As there are differences in regional legal advertising, this could restrict the marketing strategy. (Tai, 2007)

7.0 Conclusion

This report has analysed the internal and external environment in which Amazon.com operates, which has resulted in the generation of several possible strategies. In conclusion, we recommend that market penetration in China is the most suitable, feasible and acceptable option based on Amazon.com's core competences and opportunities in the industry.

Managing change and implementing strategies can be very challenging in a constantly changing, global environment. Therefore, Amazon.com will need to integrate its resources and competence across different functional areas. "Capability in separate resource areas is not enough" (Johnson et al, 2006, p491).

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Appendix 1: Current Product Portfolio

For the purpose of this report, we will consider Amazon.com's products/services as the following:

<p>Introducing Kindle</p> <ul style="list-style-type: none"> • Kindle: Amazon's wireless reading device • Kindle Books, Newspapers & Blogs 	<p>Books, Music & Movies</p> <ul style="list-style-type: none"> • Books • DVD • Music • Magazines & Newspapers • Amazon Shorts • Textbooks • MP3 Downloads • Unbox Movie & TV Downloads • VHS
<p>Consumer Electronics</p> <ul style="list-style-type: none"> • Audio, TV & Home Theater • Camera & Photo • Cell Phones & Service • Musical Instruments • All Electronics 	<p>Computer & Office</p> <ul style="list-style-type: none"> • All Business Center • Computers & Add-Ons • Office Products • Software
<p>Tools & Automotive</p> <ul style="list-style-type: none"> • Automotive • Industrial & Scientific • Patio, Lawn & Garden • Power & Hand Tools 	<p>Food & Household</p> <ul style="list-style-type: none"> • Gourmet Food • Grocery • Pet Supplies
<p>Home Improvement</p> <ul style="list-style-type: none"> • Kitchen & Dining • Patio, Lawn & Garden • Vacuums & Storage 	<p>Toys & Video Games</p> <ul style="list-style-type: none"> • Toys & Games • Video Games
<p>Sports & Fitness</p> <ul style="list-style-type: none"> • Exercise & Fitness • All Sports & Outdoors 	<p>Clothing & Jewelry</p> <ul style="list-style-type: none"> • Apparel & Accessories • Shoes • Jewelry • Watches • Health & Beauty • Beauty • Health & Personal Care
<p>Kids & Baby</p> <ul style="list-style-type: none"> • Apparel (Kids & Baby) 	

Appendix 2: Competitor Analysis

Amazon.com is leading brand in e-commerce industry, but has many strong competitors. Focus will be put on 3 of them, EBay, Barnes and Noble and Wal-Mart.com. All 3 have a strong e-commerce presence.

Barnes and Noble

According to Yahoo Finance¹, Barnes and Noble are a key competitor of Amazon.com. Barnes and Noble have a huge physical presence, with it being America's biggest book store, with over 800 stores, but also have a big presence online, with sales worth \$433,425,000.²

Product Line Comparison

Barnes and Noble.com has 6 major product lines, books, DVD's, music, textbooks, toys and office equipment, which means they cannot compete with Amazon.com in terms of product lines, as Amazon.com sells everything they offer and more.

Price Comparison

According to Yahoo Finance³, one key competitor is Barnes and Noble Inc. The following table shows certain product line, such as Music, DVD's and so on. The first product of the product line is the best seller (in black) in Amazon, and the second item (in blue) is the best seller of Barnes and Noble.

	Amazon.com	Barnes & Noble, Inc
MUSIC		
<u>In Rainbows</u> Radiohead	\$7.99	\$11.99
<u>Duets - Friends & Legends</u> <u>Anne Murray</u>	\$14.99	\$14.43
DVD		
<u>Planet Earth - The Complete</u> <u>BBC Series</u> David Attenborough	\$54.99	\$71.98
<u>Persuasion</u> <u>Sally Hawkins</u>	\$16.99	\$17.99
BOOKS		
<u>Eat This Not That</u> David Zinczenko	\$10.97	£13.96
<u>Duma Key by Stephen King</u>	\$16.80	\$19.60

¹ <http://finance.yahoo.com/q/co?s=AMZN>

² Barnes and Noble Annual report 2006

³ <http://finance.yahoo.com/q/co?s=AMZN>

TOYS and GAMES		
Blokus Strategy Board Game	\$22.33	\$29.95
Apples to Apples Crate Game	\$22.99	\$29.95
VIDEO GAMES		
Super Mario Galaxy Wii	\$49.99	\$49.99
Call of Duty 4: Modern Warfare Xbox	\$55.99	\$59.99
Delivery	Free delivery with \$25 or more spend threshold	Free delivery with \$25 or more spend threshold
Total	\$276.93	£320.03

The table shows that Amazon.com is cheaper than Barnes and Noble and in terms of product range and price, Amazon.com is a better position than Barnes and Noble.

Wal-mart.com

The second price comparison is with Wal-Mart.com, which has a vast numbers of physical stores around the world. Wal-Mart is one of the biggest companies in the world, with net sales of \$345 billion in 2007, which was a 12% increase based on previous year.

Product Line

On the website, they sell over 1,000,000 products online.⁴ They compete on most product lines, ranging from books, to mattresses, but there are a few key differences;

- Groceries – Amazon.com sells food groceries online, whereas Wal.mart.com does not and just offer’s this offline
- Pharmacy – Wal-Mart offer online prescriptions and medical care, where Amazon.com does not
- Contact lenses – Wal-Mart sells prescription contact lenses online and Amazon.com does not, but do offer contact lenses products.
- Print pictures – Wal-Mart offer the service of printing pictures online with an hour pick up service in-store and delivery.
- E-books. – Amazon has recently offered Amazon Kindle, which is portable device for reading books.

Price Comparison

	Amazon.com	Wal-Mart.com
MUSIC		
<u>In Rainbows</u> Radiohead	\$7.99	\$7.88
<u>As I Am (CD)</u> <u>by Alicia Keys</u>	\$9.99	\$7.88
DVD		
<u>Planet Earth - The Complete BBC Series</u> David Attenborough	\$54.99	\$54.87
<u>Shrek The Third (Full Frame)</u>	\$14.99	\$16.87
BOOKS		
<u>Eat This Not That</u> David Zinczenko	\$10.97	\$10.47
<u>Reposition Yourself: Living Life Without Limits</u>	\$16.32	\$12.60
VIDEO GAMES		
<u>Super Mario Galaxy</u> Wii	\$37.99	\$49.88
<u>Guitar Hero III Bundle w/ Guitar Controller</u> <u>PS2</u>	\$89.99	\$89.82

⁴ <http://www.walmart.com/catalog/catalog.gsp?cat=542413>

IPOD		
Apple 8 GB iPod touch	\$258.99	\$277.88
iPod nano 8GB, Black	\$187.99	\$197.88
Various		
Graco Passage Travel System With SnugRide, Meridian	\$179.99	\$169.96
Traveler's Choice San Marino 4-Piece Luggage Set, Orange	\$149.95	\$98.89
Delivery	Free delivery with \$25 or more spend threshold	No spend threshold. Varies with products. Free delivery to store.
Total	\$1020.15	\$994.88

Overall, Wal-Mart.com is slightly cheaper than Amazon.com, but is not always cheaper in every product line. Both have quite similar product ranges but the major difference is in the service, where Wal-Mart.com can offer delivery to their physical store where Amazon.com cannot.

ebay.com

Ebay.com is the world's largest and most popular online auction site.⁵ They have no stock and no stores. eBay users worldwide trade more than \$2,039 worth of goods on the site every second.⁶

Product line

No real comparison can be made with the amount of products or product lines eBay offer. eBay sells everything and anything, to retail estate to jars of mud. They can sell most of what amazon.com offers, but usually not brand new, such as used text books or unwanted DVD's.

Price Comparison

Real comparisons cannot be made with eBay, as the final price of the product is never known (apart from the buyer), but eBay has an associated company called half.com. This is where end user's put their products up for a sale, at a pre-determined price, so there is no auction, but is still consumer to consumer interaction. This is similar to Amazon Market place.

MUSIC	Amazon.com Marketplace	Half.com
<u>In Rainbows</u> Radiohead	\$6.41	<u>\$6.37</u>
<u>As I Am: Keys, Alicia</u>	\$7.00	<u>\$6.71</u>
DVD		
<u>Planet Earth - The Complete BBC Series</u> David Attenborough	\$23.50	\$26.22
<u>Ratatouille</u>	\$9.88	<u>\$10.00</u>

This price comparison will be made between eBay's Half.com and Amazon's marketplace. The comparisons will only be made with products if they are being advertised as new.

BOOKS		
<u>Eat This Not That</u> David Zinczenko	\$9.88	\$9.98
<u>Eat, Pray, Love</u> Elizabeth Gilbert	\$7.19	<u>\$6.25</u>

⁵ E-Commerce, Keennth C Laudon

⁶ http://news.ebay.com/fastfacts_ebay_marketplace.cfm

VIDEO GAMES		
Super Mario Galaxy Wii	\$40.00	\$49.99
Halo 3 XBOX	\$46.93	\$30.00
Delivery		
Total		

A price comparison can't really be used, but it's a good indication to show that Amazon.com market place can compete on price with Half.com.

Appendix 3: Top 20 countries with highest number of internet users

TOP 20 COUNTRIES WITH HIGHEST NUMBER OF INTERNET USERS					
#	Country or Region	Internet Users, Latest Data	Penetration (% Population)	% of World Users	Broadband Subscribers
1	United States	210,575,287	69.7 %	18.0 %	58,136,577
2	China	162,000,000	12.3 %	13.8 %	35,300,000
3	Japan	86,300,000	67.1 %	7.4 %	25,755,080
4	Germany	50,426,117	61.1 %	4.3 %	14,085,232
5	India	42,000,000	3.7 %	3.6 %	2,100,000
6	Brazil	39,140,000	21.0 %	3.3 %	5,846,000
7	United Kingdom	37,600,000	62.3 %	3.2 %	12,993,354
8	Korea (South)	34,120,000	66.5 %	2.9 %	14,042,728
9	France	32,925,953	53.7 %	2.8 %	12,699,000
10	Italy	31,481,928	52.9 %	2.7 %	8,638,873
11	Russia	28,000,000	19.5 %	2.4 %	1,200,000
12	Mexico	22,700,000	21.3 %	1.9 %	3,728,150
13	Canada	22,000,000	67.8 %	1.9 %	7,675,533
14	Indonesia	20,000,000	8.9 %	1.7 %	n/a
15	Spain	19,765,033	43.9 %	1.7 %	6,654,881
16	Vietnam	16,511,849	19.4 %	1.4 %	n/a
17	Turkey	16,000,000	21.1 %	1.4 %	2,773,685
18	Australia	15,085,600	71.9 %	1.3 %	3,939,288
19	Taiwan	14,500,000	63.0 %	1.2 %	n/a
20	Philippines	14,000,000	16.0 %	1.2 %	n/a
TOP 20 Countries		915,131,767	21.7 %	78.0 %	n/a
Rest of the World		257,978,158	11.0 %	22.0 %	n/a
Total World - Users		1,173,109,925	17.8 %	100.0 %	n/a

<http://www.internetworldstats.com/stats3.htm>

Appendix 4: - Amazon.com's SWOT Analysis

Strengths

- 1. Global brand** - A strong brand image provides competitive advantage in the online retail industry and helps attract customers. Amazon's ranking in top 100 global brands ranking has improved from No. 68 (2005) to No. 65 (2006) (Marketline Business Information Center, 2007).
- 2. Focus on research and development** - During 2006, the company invested about \$662 million in R&D. The company's focus in R&D facilitates development of new products and enhancements to existing products, which helps to maintain a strong market position (Marketline Business Information Center, 2007).
- 3. Strategic location** - based in Seattle, Washington, due to the large pool of technical talent and close proximity to one of the largest wholesalers located in Rosenberg, Oregon, through which Amazon.com continues to conduct 60% of its business (Ratnasingham, 2006, p3).
- 4. Customer-centric vision** - focused on giving the customers what they want, innovating to give the customers what they don't know they want, and providing a personalised service for each individual customer (Ratnasingham, 2006, p6).
- 5. Diverse products** - Amazon.com sell a large variety of products (see section ...) Recently, Amazon.com revamped its distribution in order to ship 35% more products without additional workers (Ratnasingham, 2006, p6).
- 6. Applied advanced technology** - Amazon.com provides a feature-rich content, a secure and trusted transaction environment and easy-to-use functionality for customers. Amazon.com is able to personalise web pages to individual customer preferences, including product recommendations. This technology encourages repeat purchases. 70% of Amazon.com's customers are repeat purchasers (Ratnasingham, 2006, p7).
- 7. Amazon.com's Merchant Programme** - Amazon.com was the first internet retailer to operate an merchant programme that allowed owners of other websites to refer customers to Amazon.com in exchange for a referral fee (Ratnasingham, 2006, p10).
- 8. Skilled workforce** - as identified in the Value Chain Analysis. Amazon.com sources expertise from highly experienced workers from other competitors such as Walmart (JUNG, 1999 and Cole-Gomolski, 1999)
- 9. Strong logistics** - as identified in the Value Chain Analysis. Ability to aggregate orders bound for specific locations. Close proximity to motorways e.g. UK Fulfilment Centre in Bedfordshire located next to M1.

Weaknesses

- 1. No physical presence** - Emarketer Online (2008) predicts the growth in popularity of "buy online, pick-up in store" services to avoid shipping fees.
- 2. Low profit margins** - The gross profit margin which measures the relationship between revenue to cost of sales has decreased by 1.1 %. Decreasing margins indicate increasing cost pressures and continued decrease in margins would affect the profitability of the company (Marketline Business Information Center, 2007).
- 3. Low cash flows** - The cash from operations had declined from \$733 million in 2005 to \$702 million in 2006 (Marketline Business Information Center, 2007).
- 4. Weak performance in China** - Amazon.com entered China through the acquisition of Joyo.com in 2004. This acquisition led to stiff competition between Joyo.com and the leading domestic player dangdang.com. Joyo.com has a weak market share of 12% against 18% of dangdang.com (Marketline Business Information Center, 2007).

Opportunities

- 1. Growth in movie downloads** - Emarketer Online (2008) predicts that US consumer spending on movie downloads will more than double from 2007 to 2008, from \$114 million to \$245 million.
- 2. Social networking** - Emarketer Online (2008) predict that social networking will remain a

key online activity, with 44% of US consumers using social networking at least once a month in 2008.

3. Growth of online shopping in China - According to China Internet Network Information Center (CNNIC), online shopping in the country is expected to grow by 190% in 2008. Now China is the second largest internet market in the world after the US, with internet users constituting 10% of its population (Marketline Business Information Center, 2007).

4. Beijing Olympics – an important event of 2008. EMarketer Online (2008) identifies it as a way to try and tap into China’s growing middle class.

5. Expansion through acquisitions - The company has recently acquired dpreview.com, the web's most comprehensive site for digital camera information and reviews. Amazon.com also recently acquired Brilliance audio, the largest independent publisher of audio books in the US (Marketline Business Information Center, 2007).

6. Growing e-commerce sales – spending of US residents on goods and services from online retailers is expected to grow to \$144 billion in 2010 (Marketline Business Information Center, 2007).

7. Growth in digital media – In 2007, the number of online music track downloads reached 1.7 billion, a jump of 53% on 2006 (New Media Age, 2008, p13).

9. Increased consumer spending in India – Wealth is beginning to filter down to rural and traditionally low income sections of society. India’s middle class is expected to grow from a population of 200 million to 500 million by 2015 (The Times Online, 2007). Ecommerce in India has been growing steadily by 30% year on year (The Economic Times, 2007).

Threats

1. Dependent on vendors – Amazon.com depends on a variety of vendors for the sourcing of merchandise. Amazon.com does not have long term agreements with these vendors and so the inability to renew these contracts at reasonable terms may adversely affect the operations of the company (Marketline Business Information Center, 2007).

2. Competition – Amazon.com operates in an intensely competitive industry. Marketline Business Information Center (2007) identify that Amazon.com faces competition from physical world retailers, publishers, vendors, distributors, manufacturers and producers of the products sold by the company; other online e-commerce sites; companies that provide e-commerce services, including website development; third-party fulfilment and customer-service; and companies that provide infrastructure web services or other information storage or computing services or products.

3. Patent infringement – In the past few years, Amazon.com has been involved in various legal complaints. In 2005, Register Systems filed a patent infringement case and more recently IBM has file two patent infringement lawsuits against the company. Unfavourable outcomes in lawsuits would adversely affect the reputation and profitability of the company (Marketline Business Information Center, 2007).

Appendix 5: Extract from 2006 Company Report and Letter to Shareholders

It's All About the Long Term

We believe that a fundamental measure of our success will be the shareholder value we create over the *long term*. This value will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital. Our decisions have consistently reflected this focus. We first measure ourselves in terms of the metrics most indicative of our market leadership: customer and revenue growth, the degree to which our customers continue to purchase from us on a repeat basis, and the strength of our brand. We have invested and will continue to invest aggressively to expand and leverage our customer base, brand, and infrastructure as we move to establish an enduring franchise.

Because of our emphasis on the long term, we may make decisions and weigh tradeoffs differently than some companies. Accordingly, we want to share with you our fundamental management and decision-making approach so that you, our shareholders, may confirm that it is consistent with your investment philosophy:

- We will continue to focus relentlessly on our customers.
- We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.
- We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.
- We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.
- When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.
- We will share our strategic thought processes with you when we make bold choices (to the extent competitive pressures allow), so that you may evaluate for yourselves whether we are making rational long-term leadership investments.
- We will work hard to spend wisely and maintain our lean culture. We understand the importance of continually reinforcing a cost-conscious culture, particularly in a business incurring net losses.
- We will balance our focus on growth with emphasis on long-term profitability and capital management.

At this stage, we choose to prioritize growth because we believe that scale is central to achieving the potential of our business model.

- We will continue to focus on hiring and retaining versatile and talented employees, and continue to weight their compensation to stock options rather than cash. We know our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner.

Appendix 6: PESTEL Analysis of China

PESTEL Factors	Key Point	Relevance to Amazon.com
Political	Government promoting e-commerce with the "E-Commerce Development Plan aims for China to have a basic support systems and technical services which tackle poor logistic and credit system to support the development of e-commerce nationwide within three years. (Woudhuysen, 2007)	E-commerce development plan and the improvement of credit system and logistics should increase online trust. This, in turn, should successfully increase online spending of Amazon.com
Economic	Increasing consumer expenditure and national GDP (Euromonitor 2007)	The higher the purchasing power the higher the possible revenue of Amazon.com
	China may not want to rely too heavily on the US for e-commerce success. However, by remaining open to the US, and by the US remaining open to China, both countries look set to benefit. US companies will gain entry to China's growing e-commerce market, whilst transferring new technology, operational expertise and business knowledge to China (Woudhuysen, 2007).	
Social	According to China Internet Network Information Center (CNNIC), online shopping in the country is expected to grow by 190% in 2008.	More potential amazon.com customers.
	According to China-based IT consultancy Analysys International, China's retail e-commerce sales reached US\$657m in 2006 and may triple to US\$1.25bn in 2010. By comparison, the US Department of Commerce estimates that US retail e-commerce sales reached US\$122bn in 2006 and are growing at over 20% annually (Woudhuysen, 2007).	
	Poor credit system- only 24% of China's internet users currently shop online as it is very difficult for the average Chinese citizen to get hold of a credit card.	It bring inconvenience for potential online shopper which may affect Amazon.com's revenue
	Estimated that US\$913m in 2006 e-commerce sales were lost because of security concerns among online shoppers (Woudhuysen, 2007).	

	90% of all online shoppers in China are under 40 (Woudhuysen, 2007)	Amazon.com has a clear target market in China. While there is huge potential market for people above 40.
	61% of female consumers in Beijing, Tianjin, Shanghai, Harbin, and Guangzhou have ever tried online shopping. The women in urban areas are becoming the major online shoppers in China. However, the traditional department stores and shopping centres still have great power to lure the females at present, so the online sellers must try their best (SinoCast, 2006)	Amazon.com has huge potential female market, however, how to beat the physical stores is the key to success.
Technological	Fragmented B2C industry with the top three service providers, controlling only 36% of the B2C market	
Environmental	Global Warming/ Pollution Awareness	Less car journeys, more shopping online. (Matthews and T. Hendrickson)
	Have to become more "green" to attract consumers	Changing business methods and environment to become more "green", i.e. with postage and packaging, work environment.
Legal	EU Electronic Commerce Directive	Could impact the growth of transatlantic e-commerce given its strict regulations (Jacobson, 1999 as cited in Zugelder et al, 2000).
	The Electronic Signatures Law: China's First National E-Commerce Legislation	Removes legal obstacles and provides a more secure and transparent legal environment (Yan, 2005). Increased use of e-commerce for both consumers and businesses (Yan, 2005).