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Amazon.com, Inc.

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What does a customer centric company look like? Is there a smiling face to welcome you in the door? What if the company doesn't have a door? What if the door was the World Wide Web? Then what does a customer centric <u>online</u> company look like? Is there a big smiling face when you browse to the company's website? The answer is yes and the company is Amazon.com, Inc.

Amazon.com, Inc.

Amazon.com, Inc. is the largest "e-tailer" in the world with annual sales in 2008 over $19 billion (Amazon.com, Inc., 2009). Amazon.com, Inc. was founded by Jeff Bezos in 1994 in Washington State. Amazon.com, Inc. opened its virtual doors in July of 1995 with Amazon.com (Amazon.com, Inc., 2008). Amazon.com was originally an online bookstore. The company sold its first book in July of 1995. The book was titled, "Fluid Concepts & Creative Analogies: Computer Models of the Fundamental Mechanisms of Thought" (Amazon.com, Inc., 2008) In May of 1997 Amazon.com, Inc. launched its initial public offering (IPO) of stock. The company sold three million shares of common stock. The company was listed as AMZN on the NASDAQ (Schneider, 2008, para. 1).

Amazon.com Product Offerings

Soon after the company's IPO, Amazon.com, Inc. began selling music, movies, software, electronics, and other items besides books on its website (Schneider, 2008, para. 1). The online music store was opened in June of 1998. The DVD and video store was opened in November of 1998. Home improvement items, computer software and video games appeared on Amazon.com in November of 1999 (Amazon.com, Inc., 2008).

Table 1 below provides a timeline for other product offerings by Amazon.com, Inc. (Amazon.com, Inc., 2008).

Month and Year	Product(s)
May 2000	Kitchen products
August 2000	Camera and photo products
September 2002	Office products
November 2002	Apparel and accessories
September 2003	Sports and outdoor products
November 2003	Gourmet food
December 2003	Health and personal care products
April 2004	Jewelry
October 2004	Beauty products
June 2006	Preparation and recovery products for natural disasters
June 2006	Toy and baby products
June 2008	Office supplies
September 2008	Motorcycles and ATVs

Table 1

Amazon.com, Inc. Goes International

In October of 1998 Amazon.com, Inc. launched its first international sites with amazon.co.uk in the United Kingdom and amazon.de in Germany. The year 2000 saw two new Amazon.com, Inc. websites. Amazon.fr for France was launched in August of 2000 while amazon.co.jp for Japan was launch in November of that year. In June of

2002 amazon.ca for Canada went live. In 2007, amazon.cn was launched by renaming joyo.com (Amazon.com, Inc., 2008).

Amazon.com, Inc. Acquisitions and Spinoffs

Amazon.com, Inc. has been active in acquisitions and spinoffs that have been both related and unrelated to its core business of selling products online. Table 2 below lists the company's major acquisitions to date (Amazon.com, Inc., 2008).

Acquisition	Year
Internet Movie Database (IMDb)	1998
PlanetAll	1998
Junglee	1998
Alexa Internet	1999
Joyo.com	2004
BookSurge	2005
Mobipocket.com	2005
CreateSpace	2005
Shopbop	2006
Dpreview.com	2007
Audible.com	2008
Abebooks.com	2008
Shelfari	2008

Table 2

Amazon.com, Inc. Partnerships

In addition to its websites Amazon.com, Inc. has utilized its platform to power and operate retail websites for Target, Sears Canada, Benefit Cosmetics, Bebe Stores, Timex Corporation, Marks & Spencer, Mothercare and LaCoste (Hoover's Profile of Amazon.com, 2008).

Besides commercial partnerships, Amazon.com, Inc. launched the Amazon.com Associates Program in July of 1996. This program allowed website owners to earn a percentage of Amazon.com's revenue by creating a link referral system. Customers who purchased a product from Amazon.com using a link on an owner's website generated revenue for the website owner (Hazleton, 1998).

Amazon.com, Inc. Services

Products are not the only thing that Amazon.com, Inc. sells. The company has been active since 2001 in providing services. Table 3 below lists the services that Amazon.com, Inc. has provided or is currently providing today.

Service	**Year Started**
Honor System	2001
Web Services	2002
Prime	2005
Amazon Simple Storage Service (S3)	2006
Amazon Simple Queue Service (SQS)	2006
Amazon Elastic Compute Cloud (EC2)	2006
Unbox	2007
FPS	2007

SimpleDB	2007

Table 3

With the exception of Amazon Prime the services listed in Table 3 are not part of the company's core business. Instead the services leverage Amazon.com, Inc.'s extensive technology infrastructure and associated investments.

More Than Just Books

Amazon.com, Inc. has steadily increased its offering of products. Much of this growth is because of the company's efforts to sell products from third parties. The company began with Amazon Auctions in March 1999. The service barely made a dent in the customer base of eBay, Inc. and was subsequently replaced in September of 1999 by zShops. zShops was a fixed price marketplace where third party sellers offered various products (Hoover's Profile of Amazon.com, 2008). Amazon.com, Inc. found that customers preferred to shop for items via the product detail page. As a result zShops listings were migrated to the Amazon Marketplace in 2006. The Amazon Marketplace was created in 2001 and proved to be a better platform for items for sale from third party sellers (Hoover's Profile of Amazon.com, 2008). The Amazon Marketplace is still available for third party sellers today.

Amazon.com, Inc. began selling products under its own label called Pinzon in August of 2005 (Hoover's Profile of Amazon.com, 2008). Since 2005 the company has expanded the list of products under the label to include textiles, kitchen utensils, paints, carpets, wallpaper, hair accessories, clothing, footwear, headgear, cleaning products, jewelry, and other household goods (Hoover's Profile of Amazon.com, 2008).

During the month of August in 2007 AmazonFresh was launched by the company. AmazonFresh is a grocery delivery service providing perishable and nonperishable foods. The delivery service is for residents in the greater Seattle area (Amazon.com, 2008).

In September of 2007 the company launched an online music store. The online store offers digital rights management (DRM) free mp3 music files for download (Amazon News Releases, 2007)

In 2008 Amazon.com, Inc. has expanded into film production. The company has partnered with 20th Century Fox to fund the film *The Stolen Child* (Hoover's Profile of Amazon.com, 2008).

Amazon.com, Inc. Mission and Vision

Amazon.com, Inc. does not have a published mission statement. In a presentation by Rich Prem, Vice President of Indirect Taxes and Tax Reporting in September 2008, Amazon.com, Inc.'s mission is to be "Earth's most customer centric company, where you can find, discover, and buy anything online" (Prem, 2008). The company does have a published vision statement: "Our vision is to be earth's most customer centric company; to build a place where people can come to find and discover anything they might want to buy online" (Amazon.com, 2008). The company's primary objective in supporting its mission and vision is to leverage technology to build the best Internet shopping experience for people. As an online retailer technology is at the foundation of the company's success.

Amazon.com, Inc's Strategy

Evident in the company's vision statement is Amazon.com, Inc.'s goal of expanding its online presence into other countries. The vision of the company is to become "earth's most customer centric company." This statement indicates that one of the company's strategies is to continue to expand its presence outside of the United States. Further expansion is expected for Amazon.com, Inc. but the company has not stated which country it may open its virtual doors to next. According to an interview by Chip Bayers, Diego Piacentini, Senior Vice President of Worldwide Retail and Marketing of Amazon.com, Inc., said, "Our international expansion is not a matter of if but when" (Bayers, 2002).

Problem Statement

As the largest Internet based retailer in the world can Amazon.com remain profitable given the company's numerous acquisitions and ventures outside of its core business?

Societal Environment

Amazon.com, Inc. operates in several countries where the societal environment impacts the company's ability to conduct business and succeed in its vision. To date the company maintains offices, fulfillment centers, or software development centers in the following countries: United States of America, United Kingdom, Scotland, Ireland, France, Germany, India, South Africa, Romania, Japan and China. The company headquarters are located in Seattle, Washington (Hoover's Profile of Amazon.com, 2008).

Amazon.com, Inc. Intellectual Property

In the United States the company has faced opposition primarily due to its use of patents as a hindrance to competition. The most controversial of these patents is the 1-click patent owned by Amazon.com, Inc. (Hoover's Profile of Amazon.com, 2008). The 1-click patent refers to a customer's ability to make purchases online with a single click. The patent was used by Amazon.com, Inc. against one the company's competitors, Barnes and Noble. In December of 1999 the Free Software Foundation launched a boycott against Amazon.com, Inc. for its malicious use of their patent against Barnes and Noble. The boycott was eventually lifted in 2002 (Hoover's Profile of Amazon.com, 2008).

In February of 2000 Amazon.com, Inc. received a patent for an online customer referral program. Online customer referral programs are also known as affiliate programs. Tim O'Reilly, a technology industry leader, spoke out against the company's 1-click and affiliate program patents (O'Reilly, 2000). O'Reilly and Jeff Bezos were able to come to an agreement and lobbied legislators in Washington, D.C. for patent reform.

Amazon.com, Inc. Human Capital

Amazon.com, Inc. has consistently resisted efforts by trade unions to unionize company employees in the United States and the United Kingdom. In 2001, 850 Seattle-based employees were laid off by the company after a unionization drive. The company denies any relation between the layoffs and the unionization drive but the Washington Alliance of Technical Workers claims that Amazon.com, Inc. violated union laws. In the United Kingdom the company successfully defeated an effort by the Graphical, Paper, and Media Union (GPMU) to unionize United Kingdom Amazon.co.uk employees.

Amazon.com, Inc. contracted with The Burke Company to assist with the effort (Hoover's Profile of Amazon.com, 2008).

Amazon.com, Inc. Legal Climate

Amazon.com, Inc. has faced a few legal battles. These battles have been minor but have played a role in shaping the company and its operations. In 1999 the company was sued by the Amazon Bookstore Cooperative in Minneapolis, Minnesota for trademark infringement. The Cooperative had been using the name "Amazon" since 1970. Both companies were able to settle out of court and Amazon.com, Inc. continues to use the name Amazon today (Boulton, 1999).

A lawsuit against Amazon.com, Inc. is pending in the United States District Court for the District of Columbia. The lawsuit alleges that Amazon.com, Inc. violated both federal and state laws that prohibit the sale of videos and magazines of animals fighting (The Humane Society of the United States, 2008, para. 1). Amazon.com, Inc. has argued that the sale of the products is within our constitutional right to free speech but has since pulled the videos and one of the magazines from its product catalog.

In January of 2009 Amazon.com, Inc. was informed that the United States Postal Service was investigating the company and its compliance with the United States Postal Service rules.

United States Economic Climate

The United States economy has been in a recession since December of 2007 (Grynbaum, 2008). The online retailing industry saw a decline in sales of 2% during the fourth quarter of 2008. The fourth quarter typically sees higher sales for the online retail industry due to the holiday season. Amazon.com, Inc. was one of a few online companies that experienced sales growth during the fourth quarter of 2008 (Worthen, 2008). In January of 2009 Amazon.com, Inc. announced that its fourth quarter sales for 2008 were up 18% to $6.70 billion and that the 14th holiday season was the best ever (Amazon.com, 2009).

Amazon.com, Inc. International Climate

Amazon.ca is constrained by Canadian law that states that foreign owned book sellers are not to operate any headquarters, fulfillment centers, or call centers in the country. The company has an agreement with Canada Post for the distribution of products within Canada (Mulholland, 2002). The same year that Amazon.ca was launched a lawsuit was filed against the company by the Canadian Booksellers Association and Indigo Books and Music. The lawsuit alleged that the partnership between Amazon.ca and Canada Post circumvented Canadian law. The lawsuit was dropped in 2004 (Mandel, 2002).

Amazon.com, Inc. acquired Joyo.com Limited in 2004. Joyo.com is regulated by the People's Republic of China. Regulations and business license requirements of the People's Republic of China restrict companies from "foreign investment in Internet, retail, and delivery sectors, Internet content and the sale of media and other products" (Amazon.com, 2009). According to Amazon.com, Inc's annual report for 2008, the company believes that it complies with PRC regulations by operating Joyo Amazon websites and companies with PRC companies owned by nominee shareholders who are PRC nationals (Amazon.com, 2009). Amazon.com, Inc. is subject to risk with the Joyo Amazon websites and its interpretation of PRC regulations. The company could be subject to monetary fines and penalties or even face closure in China should the government of the PRC interpret or apply regulations differently than Amazon.com, Inc.

Industry Environment

Porter's Analysis consists of a framework of five forces that influence an industry. The five forces are: Rivalry, Threat of Substitutes, Buyer Power, Supplier Power, and Barrier to Entry. The latter four forces have an impact on industry rivalry and ultimately an industry's profitability (Porter, 3).

Current Competitors

Due to the vast product catalog of Amazon.com, Inc. the company's competitors include any business that sells music, movies, books, games, computers, office products, electronics, home and garden items, groceries, health items, beauty products, toys, clothing, jewelry, sports and outdoor equipment, and tools. These competitors can be online e-commerce sites or brick and mortar stores. The company's primary competitors are eBay, Inc., Barnes and Noble Inc., Borders, Inc., and Columbia House (Amazon.com, Inc. Yahoo! Finance Profile, 2008). Barnes and Noble Inc. and Borders, Inc. operate brick and mortar stores and online stores. Amazon.com, Inc. is the dominant online retailer in the industry. The 2007 annual sales for the company were more than double its nearest competitor, Staples, Inc. Amazon.com, Inc. offers low prices and free shipping on many of its products. This factor combined with its Amazon Marketplace contributes to the company's number one position on the Internet Retailer Top 500 List (America's Top Ten Retail Businesses, 2008). The Amazon Marketplace allows third party sellers to sell products alongside Amazon.com products.

eBay Inc. is the only other primary competitor that allows third parties to sell products on its website. eBay Inc. maintains two separate websites: ebay.com and half.com. Ebay.com is an online auction house whereas half.com sells products at a fixed price. Half.com is the closest competitor to Amazon.com, Inc.

Barriers to Entry

With the prevalence of technology low barriers exist for future competitors to create online ecommerce sites. Many website hosting providers have do it yourself site builders that allow customers to create ecommerce sites within a few minutes. A quick search of ecommerce sites on the Internet yields many specialty sites that compete with Amazon.com. Very few sites outside of the primary competitors identified provide a variety of products such as Amazon.com.

Barriers are high for new competitors entering the online retailing industry. Online ecommerce sites are dependent upon customers finding their sites and products on the Internet. Search engine optimization of online ecommerce sites is necessary in order to ensure that the site and its products are found easily by customers using Internet search engines. According to data provided by alexa.com there are over 94,568 shopping websites on the Internet (alexa.com, 2008).

High barriers also exist for inventory for potential competitors. In order to sell products online you must have access to inventory to sale. Acquiring inventory can be expensive. Credit markets have tightened up since the United States entered a recession in December of 2007 (Grynbaum, 2008). Obtaining credit with suppliers may be difficult for potential competitors. Utilizing drop shippers or manufacturers who package and ship products is an alternative to buying and stocking inventory. The issue of a lack of credit still exists when using drop shippers or manufacturers.

Amazon.com, Inc. has created a high barrier when it comes to selling products online because of the name recognition the company has. According to data by alexa.com, Amazon.com, Inc. has two websites in the top ten shopping websites category (alexa.com, 2008).

Buyer Power

Buying power is the highest when customers have more choices in where they buy their products and there are a limited number of buyers. Customers who purchase consumer products have weak buying power. The price of the product is established by the seller and is not influenced by the seller (Porter's Five Forces, 2008). In the online retailing industry the buyer has limited power.

Substitute Threats

Amazon.com, Inc. started off as a substitute to the brick and mortar book stores. Amazon.com, Inc. provided another way for customers to view and purchase books (Amazon.com, 2008). In the online retailing industry the biggest threats come from manufacturers selling directly to customers and the availability of e-books and other digital content.

Publishers and manufacturers have a business to business (B2B) relationship established with online retailers. A threat that exists is the possibility of publishers and manufacturers selling directly to customers and bypassing online retailers such as Amazon.com, Inc. This model is called a business to consumer model (B2C) (wikipedia.org, 2008).

Amazon.com, Inc's business focuses on selling tangible products online to customers. Slowly but surely books are being replaced by e-books. CDs are being replaced by downloadable mp3 files. Amazon.com, Inc. has countered this threat well by offering these digital products on their websites (Dignan, 2008).

Supplier Power

Amazon.com, Inc's primary suppliers are book publishers and product manufacturers. The large number of book publishers and product manufacturers means that the suppliers are not concentrated and therefore are weak (Porter's Five Forces, 2008). Amazon.com, Inc. is also a large online retailer and is able to negotiate substantial discounts on the cost of the books and products it sells (Carvajal, 2008).

Industry Rivalry

The rivalry in the catalog and mail order houses industry is high. Amazon.com, Inc. faces intense rivalry from chain bookstores with established ecommerce sites, big box retailers who sell their products online and music sites who sell songs and albums as digital content online (Amazon.com, Inc. Yahoo! Finance Profile, 2008).

The structure of the catalog and mail order houses industry is consolidated. A small group of companies control a large portion of the market share of the industry. The industry has a market capitalization of $52.3 billion of which Amazon.com, Inc. has $30 billion (Yahoo! Finance Industry Browser, 2009).

The catalog and mail order houses industry is in the cost and shakeout phase of the industry lifecycle (investopedia.com, 2008). The industry has settled on the Internet as the dominant design for non-store retail companies and has seen substantial growth over the past two decades (answers.com, 2008). Barriers to entry in the industry are high and stiff competition exists with industry leaders such as Amazon.com, Inc. and eBay Inc.

Corporate Structure and Culture

Amazon.com, Inc. is lead by Jeffrey Bezos. Mr. Bezos is the Chief Executive Officer and Chairman of the Board of Amazon.com, Inc. Underneath Mr. Bezos are eleven Senior Vice Presidents that lead the functional areas within the company. A list of officers and their respective titles is in Table 4 below (amazon.com, 2008).

Officer Name	Title
Jeffrey P. Bezos	President, Chief Executive Officer and Chairman of the Board
Jeffrey M. Blackburn	Senior Vice President, Business Development
Sebastian J. Gunningham	Senior Vice President, Seller Services
Andrew R. Jassy	Senior Vice President, Web Services
Steven Kessel	Senior Vice President, Worldwide Digital Media
Marc. A. Onetto	Senior Vice President, Worldwide Operations
Diego Piacentini	Senior Vice President, International Retail
Shelley L. Reynolds	Vice President, Worldwide Controller and Principal Accounting Officer
Thomas J. Szkutak	Senior Vice President and Chief Financial Officer
H. Brian Valentine	Senior Vice President, Ecommerce Platform
Jeffrey A. Wilke	Senior Vice President, North America Retail
L. Michelle Wilson	Senior Vice President, General Counsel, Secretary

Table 4

It is unclear from the current organizational structure how the structure aligns with the mission and vision of Amazon.com, Inc. and the company's statement of "We will continue to focus relentlessly on our customers" (Amazon.com, 2008). Focusing on customers is all about customer service. Providing great customer service requires meeting the customers' needs through having the right products, at the right price, and having the support available to assist the customer at every step of their purchase and use of the product. None of the titles listed in Table 4 provide insight into who is directly responsible for providing service to the customers of Amazon.com's websites and services.

According to Spector, Amazon.com, Inc.'s culture reflects its passion for customers. Every employee in the company is considered an owner and is responsible for the success of the company. The company focuses more on its customers and less on its competitors (Spector, 107). A company that is focused on its customers must be in tune with the customer's needs and wants. Amazon.com, Inc. leverages technology to help with this effort. The list of officers in Table 4 shows that the company is focused on the technology that provides the foundation for the business.

Competitive Advantage

Amazon.com, Inc's competitive advantage comes from its ability to leverage technology at every step of the online shopping process. Amazon.com, Inc. has invested more than $1 billion in technology for the company (Barr, 2003). The company maintains over 76 million active user accounts, processes anywhere from 11 to 65 orders per second, ships to over 200 countries, and in 2007 had a 99 percent success rate in getting orders to customers before the Christmas holiday (Chaffey, 2008). The company operates nineteen fulfillment centers in North America, seven fulfillment centers in Europe and four fulfillment centers in Asia (wikipedia.org, 2008). Amazon.com, Inc. strives to ship 95% of products the same day the product was ordered (Kotelnikov, 2008). The company's strength comes from its ability to successfully manage the order, fulfillment and distribution processes. This strength gives the company an advantage over its competitors.

According to data from Forrester Research only 16% of online retailers offered customer review functionality on their websites in 2006. A study conducted by J.C. Williams Group Ltd. found that 60% of consumers found that product reviews by customers were helpful in making a purchasing decision (Siwicki, 2006). Amazon.com, Inc's customer review system and product referral system contribute to the company's competitive advantage. Amazon.com, Inc. provides customers with product reviews by other customers. The website also suggests similar products that were purchased by other customers. The closest competitor to Amazon.com, Inc., ebay Inc's ebay.com and half.com, do not offer a customer review system of products sold on the websites.

Also contributing to Amazon.com, Inc.’s competitive advantage is the company’s ability to consistently offer lower prices than its competitors and free shipping on many products. The company purchases large volumes of products from publishers and other companies. Amazon.com, Inc. is able receive significant discounts because of the large volume and is able to pass the discounts on to the customer (Kotelnikov, 2008). In some cases the low prices come from the many third party sellers in the Amazon Marketplace.

Amazon.com, Inc's combination of technology use, shopping convenience, large selection, low pricing, speed and reliability create a standard for other Internet-based retailers. The combination is a result of a successful business model for the company that creates advantage over its competitors (Kotelnikov, 2008).

Financial Status

Amazon.com, Inc. has been a publicly traded company since May 15, 1997. The company is required to complete quarterly and annual reports to be filed with the Securities and Exchange Commission (Koonjy, 2002). Table 5 below is an unaudited historical balance sheet for Amazon.com, Inc. for calendar year 2008 (amazon.com, 2009). Figures are cumulative for each quarter.

AMAZON.COM, INC.				
HISTORICAL BALANCE SHEETS				
(in millions)				
(quarterly information unaudited)				
	Calendar Year 2008			
	31-Dec	**30-Sep**	**30-Jun**	**31-Mar**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,769	$ 1,650	$ 1,548	$ 1,496
Marketable securities	958	674	832	655
Inventories	1,399	1,315	1,107	1,077
Accounts receivable, net and other	827	597	586	581
Deferred tax assets	204	194	163	156
Total current assets	6,157	4,430	4,236	3,965
Fixed assets, net	854	731	651	594
Deferred tax assets	145	278	284	280
Goodwill	438	405	400	392
Other assets	720	722	751	652
Total assets	$ 8,314	$ 6,566	$ 6,322	$ 5,883
LIABILITIES AND STOCKHOLDERS' EQUITY				

Current liabilities:				
Accounts payable	$ 3,594	$ 2,242	$ 1,963	$ 1,864
Accrued expenses and other	1,093	860	812	781
Current portion of long-term debt	59	42	441	906
Total current liabilities	4,746	3,144	3,216	3,551
Long-term debt	409	393	433	467
Other long-term liabilities	487	502	443	395
Commitments and contingencies				
Stockholders' Equity:				
Preferred stock, $0.01 par value:				
Authorized shares -- 500				
Issued and outstanding shares -- none	-	-	-	-
Common stock, $0.01 par value:				
Authorized shares -- 5,000				
Issued and outstanding shares	4	4	4	4
Treasury stock, at cost	(600)	(500)	(500)	(500)
Additional paid-in capital	4,121	4,051	3,794	3,191
Accumulated other comprehensive income (loss)	(123)	(73)	6	7
Accumulated deficit	(730)	(955)	(1,074)	(1,232)
Total stockholders' equity (deficit)	2,672	2,527	2,230	1,470
Total liabilities and stockholders' equity	$ 8,314	$ 6,566	$ 6,322	$ 5,883

Table 5

A current ratio helps to determine the financial strength of a company by comparing the company's total current assets to the total current liabilities for a period (zeromillion.com, 2008). The total current assets for 2008 for Amazon.com, Inc. were $6,157 million and the total current liabilities were $4,746 million. The current ratio for Amazon.com, Inc. for 2008 was 1.30. The ratio suggests that the company has good short term financial strength and is able to liquidate current assets to pay its current liabilities (investopedia.com, 2008). Amazon.com, Inc's nearest competitor, eBay Inc., reported total current assets of $6,286 million and total current liabilities of $3,705 million for 2008 (Yahoo! Finance eBay Inc., 2009). eBay Inc's current ratio for 2008 was 1.70. The primary asset differences between Amazon.com, Inc. and eBay Inc. are accounts receivable and inventory. eBay Inc. reported over $2 billion in accounts receivable compared to $827 million with Amazon.com, Inc. For 2008 Amazon.com, Inc. reported almost $1.4 billion in inventory whereas eBay Inc. reported no ending inventory (Yahoo! Finance eBay Inc., 2009).

The debt to equity ratio is a financial leverage ratio that determines how much a company relies on debt financing. The ratio compares total liabilities to total stockholder equity (investopedia.com, 2008). The debt to equity ratio for Amazon.com, Inc. for 2008 was 211%. This ratio suggests that creditors have more than two times the amount of money invested in the company than stockholders. For the same period eBay Inc. had a debt to equity ratio of 40%. The primary difference between the companies is the amount of stockholder equity in each company. eBay Inc. has over four times the amount of stockholder equity compared to Amazon.com, Inc. for the same period of 2008 (Yahoo! Finance eBay Inc., 2009).

Table 6 below is an unaudited historical income sheet for Amazon.com, Inc. for calendar year 2008 (amazon.com, 2009).

AMAZON.COM, INC.	
HISTORICAL INCOME STATEMENTS	
(in millions, except per share data)	
(quarterly information unaudited)	
	Calendar Years Ended - December 31,
	2008
Net sales	$ 19,166
Cost of sales	14,896
Gross profit	4,270
Operating expenses (1):	

Fulfillment	1,658
Marketing	482
Technology and content	1,033
General and administrative	279
Other operating expense (income), net	(24)
Total operating expenses	3,428
Income (loss) from operations	842
Interest income	83
Interest expense	(71)
Other income (expense), net	47
Total non-operating income (expense)	59
Income (loss) before income taxes	901
Provision (benefit) for income taxes	247
Equity-method investment activity, net of tax	(9)
Income before cumulative effect change in accounting principle	645
Cumulative effect of change in accounting principle	-
Net income (loss)	$ 645
Basic earnings (loss) per share:	
Prior to cumulative effect of change in accounting principle	$ 1.52
Cumulative effect of change in accounting principle	-
	$ 1.52
Diluted earnings (loss) per share:	
Prior to cumulative effect of change in accounting principle	$ 1.49
Cumulative effect of change in accounting principle	-
	$ 1.49
Weighted average shares used in computation	
of earnings per share:	
Basic	423
Diluted	432
(1) Includes stock-based compensation as follows:	
Fulfillment	$ 61
Marketing	13
Technology and content	151
General and administrative	50

Table 6

The return on equity ratio (ROE) determines how profitable a company is by comparing the net income of the company to the average stockholder's equity (investopedia.com, 2008). For 2008 Amazon.com, Inc. had a net income of $645 million and an average stockholder's equity of $1,934.5 million. The ROE for Amazon.com, Inc. for 2008 was 33.34%. Amazon.com, Inc. ranked second in the catalog and mail order houses industry in ROE for 2008 compared to 33 industry leaders (Yahoo! Finance Amazon.com, Inc., 2009).

The price per earnings (P/E) ratio determines how much investors are willing to pay for one stock compared to the stock's per share earnings. A high P/E ratio suggests that a company is expected to grow in earnings (investopedia.com, 2008). For 2008 the P/E ratio for Amazon.com, Inc. was 46.86. This number suggests that an investor is willing to pay $46.86 per share of Amazon.com, Inc. stock per $1 in earnings. The company was the leader in the catalog and mail order houses industry for 2008 in P/E ratio (Yahoo! Finance Amazon.com, Inc., 2009).

Amazon.com, Inc's Internal Financial Analysis

According to a presentation by Tom Szkutak, Senior Vice President and Chief Financial Officer of Amazon.com, Inc., the company has three financial focus areas: 1) maximize profit dollars, not margin, 2) optimize free cash flow, and 3) return on invested capital (ROIC) (Szkutak, 2009).

Amazon.com, Inc. looked at gross profit and profit margin to analyze the company's objective to maximize profit dollars and not profit margin. Table 7 below shows the company's gross profit for calendar years 2004 through 2008 (Szkutak, 2009).

Years	Gross Profit (in millions)	Gross Margin
2004	$1,602	23%
2005	$2,039	24%
2006	$2,456	23%
2007	$3,353	23%
2008	$4,270	22%

Table 7

The company has been successful in meeting its objective of increasing gross profit and not profit margin. The company has remained consistent with an average profit margin of 23% since 2004.

Free cash flow is the amount of money available to be distributed to investors after the company has invested in fixed assets and working capital items that are necessary for continued operation of the company (Ehrhardt, 95). To evaluate Amazon.com, Inc's progress towards optimizing free cash flows the company calculated free cash flow by subtracting purchases of fixed assets including internal-use software and website development from operating cash flow. Table 8 below shows the free cash flow for Amazon.com, Inc. from 2004 to 2008 (Szkutak, 2009).

Years	Free Cash Flow (in millions)
2004	$477
2005	$529
2006	$486
2007	$1,181
2008	$1,364

Table 8

With the exception of 2006 the company has grown its free cash flow from year to year. In 2006 free cash flow was lower due to Amazon.com, Inc's substantial investment in technology that year and due to losses as a result of Amazon Prime, Amazon.com, Inc's shipping subscription for customers (Acohido, 2007).

Return on invested capital (ROIC) is calculated by Amazon.com, Inc. by "taking the free cash flow and dividing it by the average total assets minus current liabilities, excluding the current portion of long term debt" (Szkutak, 2009). The ROIC for Amazon.com, Inc. is listed below in Table 9.

Years	**Return on Invested Capital**
2004	44%
2005	Approximately 34%
2006	Approximately 29%
2007	55%
2008	41%

Table 9

It is evident by the data in table 9 that the company is all over the map when comes to their ROIC. As reported by Szkutak Amazon.com, Inc. has a long term goal of reaching a triple digit ROIC (Szkutak, 2009).

Amazon.com, Inc. realized its first net profit in the fourth quarter of 2001 (Dignan, 2002). Since then the company has realized a net profit every year (Yahoo! Finance Amazon.com, Inc., 2009). With the recent recession analysts have seen a decline in online retail sales and are expecting only a 9.6% growth in ecommerce globally. Investors and analysts alike are betting on Amazon.com, Inc. to continue to grow this year. Even bullish analysts are expecting the company to grow at least 30% this year despite the current recession (Green, 2009). For the past five years the company has seen its net income grow 1249% and net sales increase 181% (swlearning.com, 2008). If the past five years are any indication of the company's financial strength and growth then analysts can expect continued financial growth from Amazon.com, Inc.

SWOT Analysis

Strengths:	**Weaknesses:**
• Online retail industry leader • Global name recognition • Amazon Marketplace	• Seasonal dependency on sales • Costs of shipping
Opportunities:	**Threats:**
• Joint ventures with brick and mortar stores • Existing technology infrastructure	• Competition from other large, medium or small online retailers (includes domestic and international retailers) • Economic recession • Primarily US Based • Government taxation

TOWS Strategic Alternatives Matrix

	External Opportunities (O)	**External Threats (T)**
	• Online presence in United States, Canada, United Kingdom, Germany, France, China and Japan • Expansion through partnerships • Acquisitions	• Competition from other online retailers • Weak economy • Political issues and unstable governments in foreign countries

Internal Strengths (S)	**SO -** *"Maxi-Maxi" Strategy*	**ST -** *"Maxi-Mini" Strategy*
• Strong investment in technology infrastructure • Employee talent • Fulfillment/shipping services • Usability • Cross selling	• Global expansion • Continue cross promotion • Maintain industry leader position • Expand Amazon Marketplace	• Use global experience and expand through acquisitions • Encourage entrepreneurial culture within the company to spur new ideas, products, and service offerings
Internal Weaknesses (W)	**WO** *"Mini-Maxi" Strategy*	**WT** *"Mini-Mini" Strategy*
• Only recently profitable • Too many initiatives outside of the core business	• Increase profitability by keeping operating costs low and leveraging available buying power	• Focus on core business and limit unrelated acquisitions and spinoffs

Review of Strategic Posture

Amazon.com, Inc's strategies are keeping with their mission to focus on the customer. The company has created a solid technology platform from which its online presence thrives. Through significant investments in technology infrastructure the company has expanded into providing services for business. Amazon.com, Inc. has expanded from the business to consumer model to the business to business model. With the expansion the company has created a new type of customer with different needs. This new customer requires the company to adjust and broaden its definition of customer. The addition of the new customer will put forth a challenge for Amazon.com, Inc. since they have always been focused on consumers as customers and not businesses. The company appears to be well positioned to tackle this new challenge.

Three Possible Corporate Strategies

Amazon will maintain its lead as an online retailer and maximize long-term profitability through:

1. Using the company's experience to expand globally through acquisitions.
2. Focusing on core business and limiting unrelated acquisitions and spinoffs.
3. Embracing new technology to sustain competitive advantage.

The following decision criteria matrix will assist in the evaluation and selection of the strategy that will strengthen Amazon.com, Inc's position as the leading online retailer.

Decision Criteria Matrix

Scale: 1-Strongly Disagree, 2-Disagree, 3-Agree, 4-Strongly Agree, 0-Neither Agree or Disagree

Criteria	**Alternative A: Global Expansion**	**Alternative B: Focus on Core Business**	**Alternative C: Leverage Technology**
1. Assists Amazon.com, Inc. in meeting its mission and vision to be a customer centric global company	4	3	4
2. Strengthens the company's industry leading position	3	1	4
3. Supports existing customers	0	3	4
4. Attracts new customers	4	3	4
5. Cost of implementing alternative is justifiable	3	4	3
Totals	**14**	**14**	**19**

The scores above identify Alternative C as the strategy that best meets the criteria established within the Decision Criteria Matrix. Technology changes rapidly and the use of technology can change an industry. It is important for companies to continue to push the envelope and not become stale with the use of technology. Amazon.com, Inc. has proven able to leverage technology to help the company succeed in its mission. Technology has remained a core aspect of the company. Amazon.com, Inc's ability to leverage technology has proven to enhance the customers' shopping experience, efficiently manage fulfillment and distribution operations and increase profitability (Prem, 2008). By embracing new technology Amazon.com, Inc. can maintain and strengthen its lead position within the online retail industry while pursuing new acquisitions and spinoffs.

Implementation Plan

Operational Strategies

One of Amazon.com, Inc.'s strengths is the company's fulfillment and shipping processes. The company's business is successful partially based upon getting orders to the customer on time (Chaffey, 2008). The company will need to maintain its current success level while planning and preparing for growth into other markets and countries. Internal analyses should be conducted to determine the company's ability to sustain growth both domestically and abroad. These analyses should look at the functions that are variable based upon sales and location. Additional fulfillment centers may need to be opened as the company expands into new countries and markets. The success of Amazon.com, Inc. will be measured by its ability to continue to meet operational goals of shipping 95% products the same day and products reaching customers on the desired date 99% of the time.

Business Level Strategies

Amazon.com, Inc. has expanded into providing information technology resources to businesses. The company has been identified as an IT company that happens to sell products (Needle, 2008). These expanded services are Amazon Web Services and Amazon Compute Cloud. Cloud computing, also known as elastic computing, is a new service offering in the technology industry. The company needs to decide if it will market these services with the same level of effort it has for its core business. The use of cloud computing and Amazon.com, Inc.'s offering presents a new business opportunity. However, the new service and potential market for the service could detract from the company's core business. Appropriate planning and performance measures should be established so that the viability of the service and its contribution to the company's mission are aligned. The company will be successful if it can maintain its profitability while investing in new technology to support its new service offerings.

Global Level Strategies

Amazon.com, Inc. has peaked globally with its expansion into the United Kingdom, Canada, Germany, France, China and Japan. The company has proven successful in these countries and has the three most popular online retail sites in Europe: amazon.com, amazon.co.uk, and amazon.de. Growth with Amazon.com Inc.'s international sites has rivaled the growth experienced in the United States. (Stanley, 2000, para. 3). Global expansion into other countries will present new political, legal, and economic challenges for Amazon.com, Inc. Market studies should be conducted prior to any expansion. The company should leverage strategic partnerships or acquisitions of existing retailers in those countries to help ensure a smooth expansion into a new market. The company can leverage its technology platform to easily setup new country or market specific websites to sell products and services.

Organization and Financial Requirements

A process should be established within the company to allow for the submission of project or technology proposals by employees. An employee recognition program and opportunities for advancement should be implemented to encourage the development of new proposals. The proposals would be reviewed by a governance committee consisting of a combination of management and labor. The committee would be responsible for approving or denying proposals. Proposals would be evaluated for their alignment with the company’s mission. Approved proposals would result in the establishment of projects that were funded and resourced based upon needs identified in the proposal. A separate budget should be created to fund approved project or technology proposals. Projects would be monitored by an executive level steering committee. Projects would be executed within a separate division and have dedicated resources assigned. The division would be structured as a projectized organization. This division should be lead by a Senior Vice President. The division would primarily be responsible for researching new technology and its application within the company. Teams should be assigned to analyze the current use of technology and make recommendations for improvement.

Evaluation Plan

At a corporate boot camp in 1997, Jeff Bezos addressed his senior staff by stating that the company would have a “Culture of Metrics.” Metrics would be established by the company to better improve its performance (Chaffey, 2008). The same culture should be fostered within the new division. Approved projects should have a maximum duration of one year. The project should have implemented a proof of concept and have available information to conduct appropriate analyses. At the conclusion of the project an analysis should be presented to senior staff within the company that outlines the proposed costs and benefits of the new initiative. The analysis should include appropriate return on investment (ROI) calculations. Criteria should be established by senior staff to determine whether or not the project is allowed to move forward with implementation in the company.

Conclusion

Through the continued use of technology Amazon.com, Inc. can become the Earth's most customer centric company where customers can find almost anything they want. The company has proven successful in using retained earnings and debt to invest in the company and its operations. As stated on the company's website, "We have never declared or paid cash dividends on our common stock. We intend to retain all future earnings to finance future growth and, therefore, do not anticipate paying any cash dividends in the foreseeable future" (Amazon.com, Inc. Investor Relations, 2008). The services provided by Amazon.com, Inc. contribute overall to the company's growth. Further investment in new technology will support Amazon.com, Inc. in maintaining its industry leading status. As technology changes customers will come to demand new products and services in different ways and uses. Amazon.com, Inc. will be positioned to provide those products and services by embracing new technology.

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