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Spring 4-29-2019

Strategic Audit of Amazon.com, Inc

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Kenny, Sarah E., "Strategic Audit of Amazon.com, Inc" (2019). *Honors Theses, University of Nebraska-Lincoln*. 188.

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STRATEGIC AUDIT OF AMAZON.COM, INC

Compiled by Sarah Kenny

Company Background

Amazon began in 1995 as an online bookstore, outcompeting physical bookstores in both price and convenience. Since then, Amazon has expanded to ecommerce in nearly every product category. More recently, Amazon has entered into cutting edge tech with their forays into cloud computing and artificial intelligence. This wide variety of innovations and products has made Jeff Bezos the richest man in the world. His net worth as of writing this report is 151 billion dollars (Jeff Bezos & family).

Focusing on achieving this fabulous profit to the exclusion of all else, the business practices of Amazon have faced backlash from politicians and workers. This has been most obvious when looking at warehouse conditions. Amazon has worse warehouse conditions on average than other similar warehouses. A survey of companies showed that 40 percent of Amazon workers say that warehouse conditions need to improve. In contrast, on average approximately 29 percent of company workers say that their company's warehouse conditions need to improve (Kim). This clearly shows that Amazon's employees see their working conditions as worse than those of similar companies. Bezos has supported unhealthy working conditions from the beginning, when he expected employees to work 60 hours per week (Hartmans). This hasn't changed over the years. Reports came out in 2017, stating that warehouse workers aren't allowed bathroom breaks, and many would resort to urinating in trash cans or water bottles so that they wouldn't get in trouble with management. Even more alarming is the high number of injuries reported by warehouse workers and how these workers recall being treated after their injury. One unnamed worker told Business Insider that he accidentally slammed his hand in a door and was told to finish his deliveries before heading to the hospital. Another incident resulted in a lawsuit, when 57-year-old Thomas Becker collapsed on the job and died at a warehouse. The warehouse took over 25 minutes to call emergency services. Amazon has

repeatedly denied these allegations of horrible working conditions, and says the company is proud of its current safety record (Godlewski).

Because of this backlash, Bezos was recently lucky enough to have a law named after him. Bezos is the world's richest man, but many of his employees rely on government assistance for food and shelter. The BEZOS law requires companies to pay employees a living wage. It ensures this by taxing corporations when their employees are forced to rely on food stamps or government assistance. Amazon made these changes and increased its minimum wage to 15 dollars per hour. However, Amazon simultaneously cut benefits such as annual bonuses and stock options (D'Onfro). This has been looked at poorly by some consumers.

On the other hand, Amazon contributes a substantial amount of money to charitable causes. Recently Bezos highlighted Amazon's interest in philanthropy. In an interview in September 2018, it was revealed that Jeff and Mackenzie Bezos pledged 2 billion dollars to various charitable causes. These causes include preschools for low income communities, and large donations to existing homeless shelters (Soper).

Situational Analysis

Goals and Evaluation Criteria

Amazon already has more money than it knows what to do with. Bezos invests time and resources into making warehouses as efficient as possible. Because of this, strategy alternatives suggested are going to focus on public image instead of profit. As long as Amazon keeps or grows its customer base, the company will continue making a profit.

Porter's Five Forces

<i>Force</i>	<i>Risk</i>	<i>Description</i>
<i>Competition</i>	High	Traditional retailers are venturing into ecommerce. Large growth in the industry leads to high number of competitors
<i>Potential of new entrants</i>	Medium	There's a low switching cost between services, but Amazon has high brand recognition. Security issues in untested systems will scare away customers. It's hard for new companies to counter Amazon's gigantic distribution network
<i>Power of Suppliers</i>	Low	Amazon has so many suppliers, that suppliers have no effect on price. All suppliers must follow Amazon's regulations
<i>Power of Customers</i>	High	Low switching costs Able to compare prices and quality across any number of products or retailers
<i>Threat of Substitute Products</i>	High	Physical stores Many other online retailers Customers fear false advertising, and often choose to go to physical stores for items such as clothes.

Amazon's greatest risks are its competition, power of customers, and threat of substitute products. Any suggestions should focus on increasing the value proposition to customers so that they choose Amazon over other competitors or products.

SWOT Analysis

Strengths

Convenience

Amazon is a one stop shop for most customers. Most customers know that whatever they need can be delivered from Amazon in 2 business days, so it's often the first place people turn to when they want to order something. In addition, consumers can start shopping on Amazon and find other items that they've been meaning to buy. A user may open Amazon to order a new piece of technology, then remember while shopping that they also need more toilet paper. It's much simpler to order multiple items at the same time than it is to go to other websites or to leave the house and go to a physical store.

Name Recognition

Amazon is by far the most popular ecommerce company in the United States, holding almost half of the US market share. This means that Amazon is the first place American customers look to when they need to order items online. The other most popular ecommerce websites are relatively unknown to Americans, and companies that are household names overseas are ignored by American consumers. For example, Alibaba holds over 50 percent of the market share in China. However, Alibaba isn't a name most Americans know (Kwok). This name recognition in the US also means that consumers feel they can trust items that are ordered from Amazon. Consumers are reluctant to try out untrusted ecommerce websites, as they are more likely to be scammed or sent low quality items.

Weaknesses

Spread too thin

Diversification has been a successful strategy for Amazon so far, as it has succeeded at most of their new ventures. Expanding from selling books to selling everything else has made Amazon the success it is today. However, diversification has some downsides. Spreading manpower and resources over many different alternatives means that Amazon is making poorly received versions of multiple products. An example of this is the Amazon Fire phone. This was Amazon's first attempt at hardware, which sold poorly and caused a loss of \$170 million for the company (Heater).

Physical presence

There are many products that consumers don't like buying from online stores. These types of items include clothing, which consumers prefer to try on in person. This reluctance to buy certain items online is shown through the market share of Amazon relative to other ecommerce companies and to traditional retail stores. Even though Amazon accounted for 44 percent of ecommerce sales in 2017, it only accounted for 4 percent of total retail sales (Thomas).

Opportunities

Foreign markets

Amazon has a very low market share in foreign markets. In China, Amazon has a market share of less than one percent (Kwok). These are huge markets that have gone untapped. If Amazon could set up delivery infrastructure in other continents and increase foreign popularity, it could increase their number of potential consumers significantly.

Threats

Counterfeit sales

Scam merchants are an issue on any ecommerce platform that allows third party sellers.

Merchants can steal money from consumers by charging consumers for products that are lower quality than advertised, or that may not even exist (Shepard). This uncertainty contributes to consumers being uncomfortable buying expensive items online. If Amazon was able to reduce this fear, online sales could increase substantially.

Lawsuits

Amazon is facing an incredible number of lawsuits from a few different directions. Most of these lawsuits are in response to labor law violations and unfair working conditions. Listed here are some recent labor lawsuits that Amazon has recently faced.

Nicholas Stover, an employee in a Kentucky call center was fired for asking for more flexibility in the break schedule to accommodate his Crohn's disease. Loss of medical coverage after wrongful termination caused his disability to worsen. Stover is seeking a minimum of \$3 million in damages (Romano).

The family of deceased Ronald Ashely filed a lawsuit in New York, saying that Amazon's failure to provide contractually-mandated disability benefits lead to Ashley's death.

Ashley had HIV and other medical issues, necessitating frequent bathroom breaks and ability to change clothes often. Ashley suffered a fall, rendering him temporarily disabled.

Amazon cut off his benefits, stating that there wasn't sufficient medical documentation.

Amazon also denied his multiple appeals asking to work from home. Ashley's issues medical issues worsened, until he died of a heart attack. 5 months after his death,

Amazon found Ashley's appeal for disability benefits which Amazon claims it had previously lost (Nickelsburg).

Amazon delivery drivers were denied meal breaks and rest periods and worked overtime with no extra pay due to delivery services being understaffed. Drivers say that they often worked 10-hour days for weeks at a time, with no meal breaks. Yolanda Champion, former Amazon driver, says that Amazon stopped scheduling her for shifts after she brought these issues to their attention (Baron).

These lawsuits drain resources from Amazon, while also negatively affecting its public image.

Strategy Alternatives

Open physical stores

Although Amazon accounted for 44% of the market share for ecommerce in 2017, it only accounted for 4% of total sales (Thomas). This shows that although Amazon is dominant in the ecommerce market, most consumers prefer to shop in physical stores. There are some items, such as clothing and groceries, that consumers especially hate buying online. Amazon has already investigated physical stores, starting with an acquisition of Whole Foods supermarket. It's unclear yet if this acquisition will be considered successful. Amazon is still doing the difficult work of redesigning and streamlining product lines and sales at Whole Foods locations. Within the next few years, it should become clear whether or not brick and mortar stores are the next big profit maker for Amazon (Ladd).

Improve worker conditions

As mentioned earlier, Amazon has been getting bad press for their working conditions and pay. Employees are often overworked and underpaid. The BEZOS law improved working conditions by taxing corporations for every dollar that their employees receive in government benefits. However, many consumers have heard stories of the awful conditions workers endure in warehouses. Today's consumers are extremely conscientious about human rights and prefer to purchase from companies that treat their employees well. As millennials increasingly enter the workforce, companies will have to change to accommodate these changing ideals and viewpoints (Peretz). Improving conditions by having mandatory breaks and increasing overtime pay would help create a better atmosphere for workers and would fix some of Amazon's public image issues.

Better vendor vetting

Merchant scams are fairly common on Amazon, where a merchant will make a posting and get as many orders as they can before negative reviews come in from customers. After the merchant gets marked as a scam, Amazon will reimburse the customers and the merchant will delete their profile. Amazon should take steps to verify vendor reliability before allowing vendors to take orders. Amazon could force vendors to send in proof of shipment before allowing any money to be transferred. Amazon could also put warnings on the pages of new vendors, warning consumers that the vendor they're ordering from hasn't yet been verified.

Send multiple sizes of clothes with purchase

One of Amazon's large issues is the reluctance of consumers to buy clothes online when they're unsure if the clothes will fit. One possible solution for this is to make it easy for consumers to try

on multiple sizes of clothes and return the sizes that don't fit. When shopping, a consumer could mark a range of 2 or 3 sizes they'd like to try on, which would be delivered in one box. After trying on the clothes to see how they fit, the customer could then send back the unwanted items with a preprinted return address included with the initial package. This could allow Amazon to overcome their issues with traditional retail without making the investment of building retail stores.

Strategy Recommendations

Of the strategies listed, the following are recommended for implementation, listed in order of importance:

- 1) Improve worker conditions
- 2) Better vendor vetting
- 3) Send multiple sizes of clothes with purchase

Strategy Justification

The first strategy recommendation is to improve worker conditions. This strategy will not correlate to a direct increase in profit. However, it will increase the public perception of Amazon and increase employee satisfaction while reducing the number of expensive lawsuits against Amazon. These lawsuits are a drain on Amazon's time and resources.

The next recommendation is to prevent consumers from being scammed by decreasing the likelihood of scammers creating item postings on Amazon's store. This will help ensure that items ordered from Amazon arrive on time and as expected. Lowering the number of bad products customers get will in turn increase customer's trust in Amazon, making them more likely to be repeat customers or to recommend Amazon to their friends and family.

The final recommendation is sending multiple sizes of clothes to customers when they order items that may fit differently than they would like. This option would help overcome some of the issues that consumers have with ordering clothes online, without requiring Amazon to open more expensive physical retail stores. This audit also suggests against opening more physical stores until it becomes obvious whether the Whole Foods acquisition is successful.

All of these recommendations improve the customer experience, which will help Amazon stay relevant as more retail options become available to consumers.

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