

University of Nebraska - Lincoln

DigitalCommons@University of Nebraska - Lincoln

---

Honors Theses, University of Nebraska-Lincoln

Honors Program

---

Fall 12-15-2020

## Amazon.com, Inc Strategic Audit

Ningzhi Luo

*University of Nebraska-Lincoln*

Follow this and additional works at: <https://digitalcommons.unl.edu/honorsthesis>



Part of the [E-Commerce Commons](#), [Gifted Education Commons](#), [Higher Education Commons](#), [Management Sciences and Quantitative Methods Commons](#), and the [Other Education Commons](#)

---

Luo, Ningzhi, "Amazon.com, Inc Strategic Audit" (2020). *Honors Theses, University of Nebraska-Lincoln*. 308.

<https://digitalcommons.unl.edu/honorsthesis/308>

This Thesis is brought to you for free and open access by the Honors Program at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Honors Theses, University of Nebraska-Lincoln by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

Amazon.com, Inc Strategic Audit

An Undergraduate Honors Thesis Submitted  
in Partial Fulfillment of  
University Honors Program Requirements  
University of Nebraska-Lincoln

By Ningzhi Luo, Bachelor of Science in Business Administration  
Accounting  
College of Business

October 18, 2020

Faculty Mentor:  
Marijane England, Ph.D.  
Department of Management

## **Abstract**

Amazon.com, Inc (Amazon) was founded by Jeff Bezos in 1994 as an online marketplace for books but later expanded to e-commerce, cloud computing, digital streaming, and artificial intelligence. This large variety of products and innovations has contributed to Amazon as one of the most influential economic and cultural forces in the world (Eugene Kim, 2018). This study would specifically focus on the e-commerce area and analyze Amazon's position in this market from an external and internal perspective by using three models: Porter's Five Forces, PESTEL, and the SWOT model. The report would identify Amazon's competitive advantages and the challenges it is facing in the industry. Potential recommendations discussed in the later section aim to maintain Amazon's leading position in the market and explore more possibilities for future growth corresponding with the COVID-19 pandemic.

**Keywords: Amazon, E-commerce, Business, Performance, Analysis, Strengths, COVID-19**

# **Amazon.com, Inc Strategic Audit**

## **Company Overview**

### **Background**

Amazon was established in Seattle in 1994 and is currently the largest e-commerce company in the United States. At first, it operated as an online bookstore business. It later expanded into vertical e-commerce, cloud computing, mobile terminals, film and television, online music, streaming media, electronic currencies, and other fields. After more than 20 years, Amazon has grown steadily and surpassed Apple and Microsoft for the first time in 2019 to become the world's most valuable listed company (Lucy Handley, 2019).

Amazon's retail business has passed the stage of rapid growth. In 2019, Amazon's sales in retail e-commerce reached 440.83 billion dollars with a growth rate of 19.8%, compared to a growth rate of 22.4% in 2018. Amazon's e-commerce has reached a mature stage (Form 10K, 2019). It is expected that the influx of third-party sellers will slow down because Amazon's self-operating business has already occupied a large part of the market share. Unfortunately, at the beginning of 2020, the COVID-19 pandemic struck. Its highly infectious characteristic and various symptoms ranging from mild to very severe brought the world economy to a halt. This new virus, to which no one has immunity, has a significantly high death rate of 3.4%, comparing to seasonal flu that generally kills far fewer than 1% of those infected (CDC, 2020). Starting in January, businesses and school were shut down, and people had to suspend their work with quarantine life. Amazon has reported net income declined to \$2.5 billion in the first quarter of 2020, compared to \$3.6

billion in the same period a year ago. For Amazon, this might be the biggest challenge ever since the Great Recession in 2008.

### **External Analysis**

Analyzing external factors could influence the development of a plan to respond to the pandemic. The following external analysis describes the competitive environment and general environmental factors.

#### **Porter's 5 Forces**

Porter's 5 Forces is a framework used to analyze competition and potential profitability in an industry. For purposes of this paper, the industry is identified as online retail sales or e-tailing.

1. **The Threat of New Entrants (Low):** Although low switching costs in the market make it easy to enter the e-commerce industry and gain customers, it would be difficult for any brand to take on such a market giant as Amazon. Successful e-commerce like Amazon would require massive investments in warehousing, distribution, marketing, building user-friendly websites, customer service, logistics, and more. The recession caused by the pandemic makes it barely impossible to launch an investment with billions of dollars to compete with Amazon. Amazon also has high brand recognition as the largest internet retailer in the market. Amazon differentiates itself by investing millions in customer experiences such as the customer friendly website, delivery time, and return of goods. Amazon wins its reputation of providing the best experience in the market.
2. **Competitive Rivalry (High):** In recent years, the number of competitors entering the industry has increased with many retail, small scale brands. Under the pandemic's influence, the number of competitors may not grow as fast as in prior years. Still, there

are competitors like Walmart, Flipkart, Alibaba shifting focus to online business due to the reduced foot-traffic in physical stores.

3. **Bargaining Power of Buyers (High):** Customers tend to be price-sensitive. Switching costs are minimal. Also, the economic downturn during the pandemic decreases the demand for consumer goods, which intensifies competition. Amazon's customer-centric approach not only generates its distinguished reputation but also provides a wide variety of products at one site where customers can compare prices to find the minimum price with relatively good quality in the market and not have to venture into retail outlets.
4. **The Threat of Substitution (Moderate to High):** When considering online-only retailers, the primary substitution is purchasing the product at a brick-and-mortar store. Under normal circumstances, the threat to the online industry from physical retailers is moderate to high. However, during the pandemic, consumers' reluctance to shop in physical stores has lowered the threat of substitution to Amazon and other retailers. In addition, the threat from the physical retail market is smaller because many small local businesses are dissolving or suspending business due to the pandemic.
5. **Bargaining Power of Suppliers (Low to Moderate):** The items purchased for retail sales are generally generic enough that a retailer could buy another product from another vendor. However, specific medical products such as masks, vitamins, sanitizers are in short supply during the pandemic because of high demand. Premium prices can be demanded. For most products, Amazon can influence the suppliers' price because of the volume it purchases. Most vendors are unable to find another e-commerce website with the same visibility and customer traffic. Also, Amazon's well-developed customer fulfillment system would discourage forward integration by vendors.

## **PESTEL Analysis**

PESTEL is a framework used to analyze and monitor macro-environmental trends that affect an industry or company.

1. **Political:** The only significant legislation related to the pandemic has been the CARES Act. The CARES Act by the U.S. Treasury Department is primarily providing support to small businesses to relieve the economic burden of COVID-19 (U.S. Department of the Treasury, 2020). The legislation put money directly in the hands of citizens and provided support for small businesses and American industries. It would have minimal impact on Amazon or its large-scale competitors.
2. **Economic:** Despite the economic downturn, E-commerce stills remain profitable even in the pandemic since buyers are looking for alternatives to physical stores. Amazon has benefited from this trend; however, major competitors, like Walmart and Target, have shifted more focus to their online services
3. **Social:** Prior to 2020, Amazon was already immensely successful. Online shopping has increased in popularity since the onset of the pandemic.  
  
However, the pandemic also raises some critics of Amazon. The overwhelmed work in the warehouse has pushed employees to overtime. More than 350 workers across the country have staged a protest declaring that Amazon's measures to protect employees against the coronavirus have so far fallen short (Alina Selyukh, 2020)
4. **Technological:** Amazon heavily relies on its technology in package, storage, distribution. Amazon also invests in an unattended locker system called Amazon Hub so that consumers can receive parcels when it is convenient for them to do so. In the pandemic,

Amazon invested more than \$4 million on COVID-related expenses such as acquiring more personal protective equipment, enhanced cleaning of warehouses and workplaces, the COVID19 testing for employees.

5. Environmental: Amazon is addressing environmental concerns about delivery services. Amazon Prime is famous for its pollutions because of the promise of 1 or 2-day delivery. The *Notice of 2020 Amazon Annual Meeting of Shareholders* states that online grocery deliveries generate 43% lower carbon emissions per item than shopping in stores. Amazon has invested over \$100 million in nature-based climate solutions and reforestation projects during 2019 (Amazon, 2020).
6. Legal: Changing import and export regulations has become an obstacle and increased cost for Amazon. Certain export/import restrictions on products have forced them to pass on increased costs to consumers but do not seem to have the breadth of its product offering. Amazon, like all retailers, has had difficulty obtaining medical and Personal Protective Equipment at the level demanded.

## **Internal Analysis**

### **SWOT Analysis**

A SWOT analysis is a review of the companies strengths, weaknesses, opportunities, and threats. The primary objective of the analysis is to help companies be more aware of the internal and external factors that affect the development of a competitive strategy.

1. Strengths: Lockdown has shifted customers to online shopping, especially in groceries. The estimated consumer spending on Amazon is up by 70% year-on-year. (Facteus, 2020). Amazon has kept its dominant market share of 38.7% in the industry. Walmart ranks

second with only a 5.3% market share. Besides e-commerce, Amazon provides digital streaming, cloud computing, and artificial intelligence. Among these, Amazon Prime Video takes up 32.4% of the market share. In *Amazon 2019 Annual Report*, Amazon has partnered with 1,300 companies, which employ 85,000 people, across 400 delivery stations across the U.S. Amazon's broad and deep supply chain together with innovations such as drone delivery and Amazon Hub keeps Amazon at the leader of e-commerce (Amazon, 2019).

2. Weaknesses: Third-party retailers must consider new regulations by Amazon, faster delivery demands, and competition from Amazon's private label products. If Amazon could not reach an agreement with its suppliers with these concerns, suppliers could possibly turn to other competitors like Walmart, eBay. Amazon needs to maintain control over the average quality of products. Otherwise, customer satisfaction would significantly decrease, and customers would migrate to other e-commerce retailers. Although Amazon takes a dominant position in e-commerce, Walmart and Target still outweigh Amazon in the brick-and-mortar market. The pandemic brings more stress on health and wages for employees, especially those workers in the warehouse and distribution centers. Workers' complaints and protests are occurring more frequently when compared to prior periods.
3. Opportunities: Amazon is planning to open 1,500 Amazon hubs in cities and suburbs across the U.S (Spencer Soper, 2020). By 2022, Amazon's delivery network would provide \$100 billion worth of business for non-Amazon packages (Andria Cheng, 2019). Amazon Fresh would keep coordinating in-store and online shopping with consistently low prices and same-day delivery to support people in the pandemic. \$18 billion was planned to spend on small business retailers that helps accelerate the growth of the

suppliers. Amazon has integrated a podcast service with its Amazon Music platform to support Amazon's Alexa services to battle with Apple Music and Spotify.

4. Threat: The U.S. government has issued alerts that Amazon could be liable for damages counterfeit products that third-party retailers sell on the platform. There are already court cases that hold Amazon accountable for damages. The government raises more and more concerns about Amazon's monopoly and data-privacy security. The Senate has voiced concerns about whether or not Amazon hinders the development of other businesses and invades citizen privacy. Outside the U.S., India banned sales of non-essential goods on Amazon during the early period of the pandemic, which created a \$398 million loss for Amazon. The government, like China, also favored local retailers more than international e-commerce platforms. The tendency in governmental policies would jeopardize the globalization of Amazon. Until 2020, third-party retailers sell 53% of the products on Amazon. Difficulty in quality control and lack of accountability would lead to customers' dissatisfaction and harm the image rating of Amazon. Other traditional competitors would develop their e-commerce services in an attempt to pull market share from Amazon.

## **Strategy**

### **Strategy Goals**

Amazon's strategy is customer-centric. Amazon's goal is to continue as Earth's biggest selection and Earth's most customer-centric company. Jeff Bezos, CEO of Amazon, interprets the true customer obsession as delighting customers by inventing on their behalf. Over the decades, Amazon's customers have grown to include millions of consumers, sellers, content creators, developers, and enterprises. Each of these groups has different needs that

motivate Amazon to meet these needs by innovating new solutions to make things easier, faster, better, and more cost-effective.

### **Strategy Recommendation**

The pandemic brings challenges as well as opportunities for change. Amazon needs to continue to understand the needs of different customers. A large variety of products are just a current means to meet the constant needs of customers. Once a better product appears, it will replace the existing products. Therefore, Amazon will need to update and differentiate its product offerings continually. For example, Amazon's private label products could cost more than other products on the platform, but Amazon products must stand for quality with better customer service.

Amazon private label products could exceed third-party retailers by providing more favorable customer services like real-time response and return without reason. Amazon should aspire to have its private label recognized as premium products.

Amazon should also push the normalization of third-party retailers. Amazon should require each retailer to provide customer services since the retailer should be responsible for its products and problems. The general Amazon customer services should be accountable to mitigate the issues between customers and retailer's customer service and make final judgments following given procedures. A large number of retailers inevitably results in variable quality. However, Amazon could classify retailers with different regulations. Amazon could identify the top retailers that qualify under the strictest criteria. The criteria system could combine with customer reviews, operation time, and Amazon appraisal. Amazon could build a credible system by setting up a hierarchy of retailers. Consumers then would form the habit of purchasing quality products from

prized retailers. The risk of purchasing counterfeit has been reduced, and trust in Amazon's choice could be improved.

Moving customer service back to third party vendors would relieve Amazon workers of the burdens in customer services. The next strategy focuses on warehouse workers. The substantial demands for delivery put more stress on these workers, harming their health and human rights. Utilizing high-tech drone delivery or Amazon Hub could efficiently reduce the workload of delivery employees. Amazon should also consider investing in a robotic sorting center that could automatically identify products and package parcels through programmed robots. Under this program, the packing list could be electronic and therefore reduce the use of paper and the possibility of privacy compromise. Mistakes are less likely to happen, and labor costs could be reduced. A shift to electronic or robotic systems would also decrease security concerns.

## References

Kim, Eugene. (2018, April 20). *Jeff Bezos reveals Amazon has 100 million Prime members in letter to shareholders*. Retrieved October 15, 2020, from <https://www.cnbc.com/2018/04/18/amazon-ceo-jeff-bezos-2018-shareholder-letter.html>

Handley, Lucy. (2019, June 11). *Amazon beats Apple and Google to become the world's most valuable brand*. Retrieved October 15, 2020, from <https://www.cnbc.com/2019/06/11/amazon-beats-apple-and-google-to-become-the-worlds-most-valuable-brand.html>

Amazon.com, Inc. (2018, December 31). *2018 10k Annual Report*. Retrieved October 15, 2020, from <https://www.sec.gov/Archives/edgar/data/1018724/000101872419000004/amzn-20181231x10k.htm#sB35C52572A45505E9A3247019C860F91>

CDC. (2020, October 1). *Assessing Risk Factors*. Retrieved October 15, 2020, from <https://www.cdc.gov/coronavirus/2019-ncov/covid-data/investigations-discovery/assessing-risk-factors.html#:~:text=COVID%2D19%20can%20affect,that%20increase%20their%20risk>

U.S. Department of The Treasury (2020, October 10). *The CARES Act Works for All Americans*.

Retrieved October 15, 2020, from <https://home.treasury.gov/policy-issues/cares>

Dess, G. G., McNamara, G., & Eisner, A. B. (2019). *Strategic management: text and cases*. New York, NY: McGraw-Hill Education.

Dobbs, M. E. (2014). Guidelines for applying Porter's five forces framework: a set of industry analysis templates. *Competitiveness Review*, 24(1), 32–45. <https://doi-org.libproxy.unl.edu/10.1108/CR-06-2013-0059>

Soper, Spencer. (2020). *Amazon Plans to Put 1,000 Warehouses in Suburban Neighborhoods*.

Bloomberg. Retrieved October 15, 2020, from

<https://www.bloomberg.com/news/articles/2020-09-16/amazon-plans-to-put-1-000-warehouses-in-neighborhoods>

Cheng, Andria. (2019). *Amazon Ships 2.5 Billion Packages A Year, With Billions More Coming,*

*In A Major Threat to UPS And FedEx*. Forbes. Retrieved October 15, 2020, from

<https://www.forbes.com/sites/andriacheng/2019/12/12/how-serious-is-amazons-threat-to-ups-fedex-study-finds-it-could-soon-beat-them-in-us-package-delivery-volume/?sh=4d9dce9468f4>

Selyukh, Alina. (2020). *Amazon Workers Stage New Protests Over Warehouse Coronavirus*

*Safety*. Retrieved October 15, 2020, from <https://www.npr.org/sections/coronavirus-live-updates/2020/04/21/839888501/amazon-workers-stage-new-protests-over-warehouse-coronavirus-safety>