E-Commerce across United States of America: Amazon.com

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Abstract: Amazon.com has been during the time one of the most important leading force in e-commerce. Although during the years, the company had to face ups and downs, it did not stop her to become the most important pioneer in this industry. This article approaches the evolution of Amazon.com from a PESTEL, Porter’s five forces, a competitor analyze point of view, also an internal analysis and a SWOT analysis. E-commerce has become a key driver of business success nowadays.

Keywords: electronic e-commerce, Amazon.com, technology, globalization

Introduction

The expansion of globalization has led to the emergence of the digital economy. New concepts have emerged, such as electronic business (e-Business) or electronic commerce (e-Commerce), as the electronic alternative to the traditional way of doing business or trade. Operating in a highly competitive economy based on information technologies and telecommunication, required firms to adopt new business models. Under these conditions, e-commerce became a reality in today's business world and the prerogative of obtaining success in the market for any company.

E-commerce has known during the last decades a significant growth, becoming more and more important for the companies worldwide. Nowadays due to globalization, technology is evolving at a very fast speed, forcing all the companies to adopt new technologies. E-commerce plays and it will play a key role in the economy in the future, and more and more companies will have to change their business strategies. [1]

The e-commerce industry contains important retailers, e.g. Amazon.com and eBay, information service companies, e.g. Google and Yahoo, online versions of traditional brick-and-mortar stores. [2] In 2004 Amazon was on top in what online service meant with: 6 website servers, 32 million customers in 150 different countries, 900,000 associate programs linked with Amazon or having contents of Amazon. [3] Because of his tremendous importance in the e-commerce industry, Amazon has the power to influence the entire industry, but it can also be influenced.

1. Pestel Analysis

Cheaper access to internet, a growing number of internet users, faster and better internet, rapid expansion into new markets through acquisitions, all of them represent the political and legal factors that may, or may not influence Amazan.com’s organization. Hence, Amazon.com is expanding more and more abroad, and that is why they have to pay attention to domestic and international legislation. Once they entered on a foreign market, they have to accept and the respect the legislation of that country.

From an economic point of view, because of the crisis severity companies like Amazon.com were forced to lay-off employees and more than that even to downsize. As a reaction to all that, the unemployment rate increased, which lead to a reduction in consumer spending. Moreover, during and after the crisis companies
like Amazon.com had problems with the shipping costs because of the oil price increased. For companies like Amazon.com or eBay the shipping costs are vital, given the fact that they cannot avoid dealing with them.

The social factors also put their mark on companies from the e-commerce industry. Figure 1 underlines that the population that uses internet has grown at a very fast speed in recent years. Clearly the population will continue to increase, and that means that more and more people will use internet, which will lead to an increased chance for online shopping. This exponential population growth is good for all the industry, hence the bigger markets.

![Growth of world internet users, 2000 – 2011](image)

Figure 1. Growth of world internet users, 2000 – 2011 [4]

Figure 2 shows the number of internet users, Asia being on top with 922, 3 million users. United States of America is on 3rd place with 272, 1 million users, and it is also the region where people are likely to trust more e-commerce. The problem of confidence in online shopping is one of the most severe, consumers having doubts about the security of their activities online.

![Internet Users in the World, by geographic regions, millions of users in 2011](image)

Figure 2. Internet Users in the World, by geographic regions, millions of users in 2011 [4]

As we can see, the number of Internet users increased, mostly because customers started to use it on their mobile devices.

Technology is one of the most important factors in e-commerce industry, and has and it will change and improve in the future. As we can see, the number of Internet users increased and will increase furthermore, because customers started to use it on their mobile devices. [5]

Environmental factors are concerned with the “green world”. More and more companies have started to have a personal signature, like “Please consider the environment before printing” when sending emails. Another example of environmental factors is the diminishing car use, because while they shop online they do not need to use their cars anymore.

2. Porter’s Five Forces

Amazon.com delivers various products and services ranging from accessories, shoes, health and personal care, from electronics to books; under new, refurbished and used items categories. There are greater number
of distributors, publishers and manufacturers that supply Amazon, hence Amazon has more supply options and choices; and this gives the company more control over its suppliers.

Amazon’s purchases from its suppliers represent a good part of the suppliers’ offer, which means that the company has more power and influence on costs and influence on improving the features of the products. Moreover, because of the highly trained experts in the departments of development, market research and marketing, Amazon is well informed about the suppliers market. Therefore, Amazon has more power over the suppliers. Nevertheless, there is always a possibility that Amazon’s key providers might individually or as an allied enter into the business and sell directly to Amazon’s customers, becoming thereby a direct player.

Amazon.com has enough customers around the world, and the lost of one customer does not affect the smooth running of the company. Amazon stands as one of the biggest concentration of goods and services where customers can buy anything they want online and at a reasonable price. The company tends to decrease the power surplus of the purchasers in investing more effort when negotiating for a lower price or to enrich product features. Hence, if Amazon’s customers are satisfied with the services they receive, they will less probably switch to other products. Nevertheless, it is possible that the major buyers could integrate backward in the supply chain, and purchase one of the growing competitors in the e-commerce industry and this could constitute a threat to Amazon.

The threat of new entrants has interesting twist in the e-commerce business. There are a lot of firms that are trying to enter the industry; but in a fast technologically driven industry, the company with best technology gets the lion’s share. Amazon’s strategy is focused on customer service innovation which is designed to improve the convenience of online shopping experience. Amazon invests heavily on the best technology in order to keep on climbing on the ladder of success within e-commerce industry. Moreover, trademark is fundamental when competing within any industry. Amazon has built a high level of brand standard, and because of that a greater percentage of its customers are loyal to them. Even if, new competitors enter into the business with similar and identical products, they will face a tremendous contest to win over Amazon’s loyal customers.

One of the major substitutes to the goods and services provided by Amazon will be bookshops, electronic shops, accessories shops, health and personal care shops that are physically located in different cities. Online shopping offers among other things: 24/7 services, one click and trustworthy delivery and most of the case at lower prices at a high qualitative level, therefore the threat of substitute is insignificant. Competition is the bottom of the free enterprise structure, and within the e-commerce industry, there is greater number of players and this makes the competition more intense for Amazon. With firm like eBay, Amazon.com tries to remain a pioneer in the e-commerce industry. Amazon will not face serious challenge in the nearest future, since the industry is not stagnant or declining, but it is possible that the growth rate of competitors may exceed that of the company.

3. Competitor Analysis

In 2004, Amazon.com had defined four different types of competitors: brick and mortar retailers, online e-commerce companies and indirect companies. [6, 630] Due to the shift of Amazon’s interest, the company has become the largest online shop. Furthermore, competitors like eBay, nowadays the biggest online auction, have increased their market share. To enter an e-commerce market has become easier, because of the low entry prices and because the business costs caused thousands of small and medium sized companies to establish their own internet shop. Moreover, physical retailers such as Wal-Mart are using nowadays the internet as a distributing channel for their products.

Direct competitors stand in a direct competition with Amazon’s core business activity, with the company business model and the product line, e.g. Borders and Barnes & Noble, “now most major brick and-mortar retail chains maintain an online presence, placing retail chains like Barnes & Noble and Borders in direct competition with Amazon and eBay”. [7] The second largest e-commerce retailer after Amazon is Germany's Otto Group. The two companies were not direct competitors at the beginning, as Amazon was first and
foremost a media products retailer focused on North America, Otto mainly sold clothes across western European markets. However, the expansion strategies have made the two companies to become direct competitors across a wide range of goods, such as shoes, consumer electronics and media products, both being present in the Western European market. Both, Amazon and Otto, compete against each other in the United States of America, where Otto has a significant presence with Crate & Barrel, albeit with a larger presence in physically than online shopping.

Recently, eBay has become the most important competitor of Amazon.com even if the business model is different, the customer base and products are overlapping. The eBay advantage is that this company does not stock the goods and behaves as a broker for buyers and sellers; with both models having advantages and disadvantages. E.g.: Amazon has a plus with the customer support, the usability, the lower prices, and the several payment methods, and eBay has wider range of product, provides a solid distribution channel for individuals and small businesses.

**Indirect Competitors** do not stand in a direct competition with Amazon, e.g.: Google (world’s library and as the world’s future source for all video content) or Apple (the most innovative company with iPhone app and with its distribution system, iTunes). Google is the clear leader in search technology and drives that business with a multitude of popular media services including: YouTube, Google Docs, and Google Books. “The giants in this category, such as Google, continue to thrive as advertisers seek to place targeted ads before millions on Internet surfers.” [7] These companies along with Amazon are an important part of the Web and media, and they will shape the web by offering new ways of customer experience in the digital world. In order to compete with Google and Apple, Amazon.com must strongly invest into new technologies and continue to grow, and keep up with innovative competitors. The problem that Amazon.com will encounter in the next years is the one concerning the digitalization of printing media. The time of paper book is coming slowly to an end, undermining Amazon’s core products. Google is investing a lot into digitalization of media, and Apple is delivering the right hardware for the new e-books. [8]

### 4. Internal Analysis

Amazon.com is in a constant need for technological innovations in order to satisfy customers’ needs; therefore the company developed its own state-of-the-art software technology, its main competitive advantage, which allowed the company to implement an efficient customer relationship management by tracking customer buying behavior and allowed them to make recommendations on similar products, which a customer might want to buy through user recognition. Hence, the user recognition function not only assists customers in their buying decision, but also increases the occurrence of up- or cross-buying, which adds to the company’s overall profitability.

Besides providing a modern information technology system, which facilitates the search activity of customers when looking for the right product, Amazon.com offers a broad range of different products. Since its beginning, Amazon.com added categories, such as jewelry or clothing, and nowadays offers almost any product by itself or through a third-party seller. This huge diversity of products underlines its advantage over traditional retailers which can only offer a limited number of products due to the limited physical space in stores.

In spite of all, Amazon.com has one of the most valuable brands in the world, which reflects the high awareness of customers about Amazon.com. Even in markets where Amazon.com was facing impediments restricting the market access, such as China, the company managed to obtain an important market share through the acquisition of Joyo.com, China's leading online retailer of books and videos.

Moreover, Amazon.com has access to a highly complex network of suppliers and distributors. Although the company owns some storage centers, the majority of the products are based on timely-delivery contracts with external producers. Furthermore, the distribution and shipping of the products is done through external contractors (e.g.: DHL), making possible that the overhead costs of Amazon.com to be very low, and gives the company an advantage cost over traditional retailers, Amazon.com being able to sell its products at a lower and more competitive price.
Although Amazon.com contracted external companies for most of their functions, the company still requires staff for customer service and highly skilled workforce for developing state-of-the-art information technology.

![Figure 3. Top 500 ranks business-to-consumer retailers in the U.S. and Canada – 2011 (Based on online sales) [9]](image)

### 5. Swot Analysis

During the dot-com-bubble 1995 - 2000, Amazon.com was one of the well known brands around the world and that offered the company a first-mover advantage in the online-retail industry. [10] This advantage gave the company the chance to grow a large customer base, which made possible the global accessibility of the company through various different websites which made it possible to defend current market position and to expand even further.

Furthermore, the company pays much more attention when comes to choosing its suppliers and distributors by entering into long-term strategic partnerships or logistic alliances, which allows Amazon.com to offer a wide range of products from different suppliers without having concerns about stocking, therefore costs can be held at a very low level. Amazon.com does not limit its strategic partnerships to suppliers and distributors, but also engages in alliances with other institutions, like banks that offer Amazon a credit card which also adds value to customer relations, as part of the company's loyalty program.

Amazon.com's information technology system makes the difference between them and other competitors, being one of the first to have an IT-system operating, which fulfilled an important part of all customer relationship management tasks. Through the system's functions of user recognition and of recording consumer behavior, Amazon.com managed to increase sales only by making individually fitting recommendations and by installing an easy-to-use website, which gave access to individuals with little or no knowledge of computers to order products online, “Amazon gained tremendous popularity through its ease of use and selection, and heralded the important role of ecommerce in the U.S” [11]. Although the above mentioned overhead or fixed costs are generally low, it took some time for the company to recover the initial investments into technology development. Because of the advanced technology that Amazon uses, the company requires continuous training of software engineers, engineers that add additional and innovative tools to the website. [12, 2] Moreover, Amazon.com is constantly employing highly skilled employees for various luxury products, such as jewelry and diamonds. [6, 635]
Despite all the strengths that Amazon.com possesses, there also exist weaknesses, e.g.: the dependence on external contractors and on-time delivery of the required items in order to ship the products to the final customer on time. Because Amazon.com is dependent on external contractor, shipping is executed by a third party. Furthermore, because the company offers free shipping, service appreciate it by all the customers, it costs the company millions of dollars per year, and reduces the overall profitability.

On the other hand, also the highly developed information technology creates problems as the company had difficulties before, with customers that were unable to access the website, problem that may determine customers to stop accessing and shop on the company's website, which can cause a drop in sales or a bigger loss of customers.

The short history of the company may be considered also a weakness, because especially in times of economic crisis, famous companies with a long history, such as Wal-Mart, might be in an advantageous position because they already learned from past experiences how to act in certain situations.

Sales stemming from mobile devices accounted for only 3,5 billion dollars in 2010, but are projected to grow to 31,0 billion dollars in 2015, according to research firm eMarketer Inc.

Sales of physical goods through online social networks will grow by 93% per year in the US, reaching $14 billion by 2015, predicts research and consulting firm Booz&Co. A Booz survey in 2010 found 27% of shoppers were willing to buy through social media.
Conclusions
For companies from e-commerce industry, there are a lot of business opportunities in the developing countries. For instance the East and Centre European countries joined or are about to join the European Union; or the BRIC countries - Brazil, Russia, India, China, which are considered as the fastest growing market, and Amazon.com should enter or invest heavily into these countries. The Amazon.com brand, build up in the last decade has a positive effect on customer trust, the quality of the products they purchase from Amazon.com is standardized, so they can trust the company. And Amazons’ strong logistic alliance ensures that the company can deliver its products fast and safe to the new customers.

As one of the main pioneer of the global economy, electronic e-commerce changed the process of the global business, increasing the logistic efficiency and facilitating the acquisition, the sale and the promotion of goods. In a similar way, e-commerce helped million of consumers through decreased prices, high competition, orders and fast shipping. Big and small companies from multiple industries depend on e-commerce applications in order to survive and to compete in local, nationals and global economies. These companies use emails in order to communicate with consumers and suppliers, and websites for advertising, processing and establishing electronic transactions.

Every half year there are such important changes in technology that it is impossible to anticipate what will happen in the next ten years. E-commerce has become in recent years a way of sale/purchase of goods and services. During the time that e-commerce advanced much faster in developed countries, the companies from developing countries started to use also e-commerce to improve their business and to start new ones. E-commerce will continue to change business on a global level, regardless the geography, sex, ethnicity and nationality.

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