

Devising a Business Model of Amazon's 1995-2004 Journey

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Abstract

This work devises a time-specific business model for *Amazon.com Inc.'s* journey from being an e-commerce start-up to the early stages of its stardom as an online retail giant. For the purpose, constructs are teased out from a case by University of West Australia academic Gary J. Stockport that featured and organised the key events of *Amazon's* business between the timeline in question, 1995 and 2004 in this case. The constructs are then looked into with several analysis methods in order to finally generate the intended retrospective business model with the design of business model theorist Alex Osterwalder. The work also maintains a general awareness of *Amazon's* present business practices and position in order to facilitate the readers to have comparative strategic thinking.

Keywords: Devising; Business Model; Amazon; Strategic management; Key issues

Introduction

Strategic management refers to the holistic approaches taken by the management of a business those involve resources and performances with respect to the internalities and externalities of that business [1].

In this report, we have presented a study of a case on Amazon.com, authored by Gary J. Stockport [2], which focuses on the early stage of the business of Amazon.com spanning between 1995 and 2004. The case elaborates *Amazon.com's* emergence and strategic positioning in a new form of industry and the faced realities with respect to the *fast-mover's* advantages during that timeline.

As the case is authored like a detailed story, purpose of our study in this report is to tease the key issues and context out of that story in order to build a discussion, mostly focusing on strategic thinking about the developments during the timeline as well as about adoption of long-term approaches in case of Amazon.com. The discussion will be principally evaluative, where relevant theoretical framework and analysis methods will be applied as the bases of the evaluation. As the discussion will continue, borrowings from published literatures will offer further theoretical basis to it.

Accomplishing the study, we can expect to achieve an empirical understanding of the shaping of *Amazon's* long-term strategic plans in consistence with evolving market realities, that how an company strategizes and what of the results of those strategies influence the shaping of that *company's* future strategies to maintain growth and expansion.

Amazon in 1995-2004: Key Issues and the Business Model

This section will cover some key aspects of *Amazon.com's* behaviour within the timeframe as highlighted in the case.

Once found through the analytical review, we will summon the key aspects to understand the outline of *Amazon.com's* business model that was in effect during that timeline. To determine or identify this, we have borrowed from Osterwalder and Pigneur [3] and looked into the key issues to find the driving factors out perspectively.

It is useful that considering significant changes those Amazon has undergone even within the limited timeline, we highlight those changes at the beginning those from a macro point of view will be highly relevant for readers come by at while looking at the identified business model at the same time.

Key issues

Osterwalder and Pigneur's framework [3] on determining a business model, named "*Business Model Canvas*" seeks a number of issues out of the story of a *business's* journey. For this particular case of *Amazon's* realities between the noted timeline, we will present that canvas in a slightly modified way in consistence with a very new form of business and industry where events around Amazon.com progressed with some influential first-mover factors.

The issues those we will critically extract from the case are:

- Key Activities
- Key Resources
- Key Partners
- Value Proposition
- Cost Structure
- Channels
- Customer Relationships
- Customer Segments
- Revenue Streams

Customer segments: Customer segments, as shown in the case when Amazon initially focused on bookselling only, were concentrated into the internet user customers in trading, business, religious books and mass-market paperbacks. But as Amazon began to differentiate with time, its customer segments grew to be global internet users in the countries where Amazon operated. Because of *Amazon's* position into the value chain, its customer segments are occupied by other internet companies too.

Value proposition: *Amazon's* unique value proposition for the mentioned customer segments that they grew over the years, between the timeline as seen in the case, can be noted as best competitive prices (accompanied by economy of scale at a matured state), timeliness, availability, customer service, interoperability and most importantly in this case- convenience of delivery of all the mentioned.

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Channels: As the case gives the story of how Amazon grew over the time, the website Amazon.com itself acts as the strongest of *Amazon's channels*. In addition to that, the partner websites, acquired businesses in distant markets and other affiliates are effective channels.

Customer relationships: Customer relationships are principally motivated by customer acquisition, customer retention and sells boost among the customer base [3]. In the case of Amazon, customer acquisition is largely contributed by the first mover advantages, while value creation and differentiation are responsible for their retention and the sequent growth of sales.

Revenue streams: Amazon now has a diversified revenue stream due to extensive differentiation and value chain drifts have. But in the time which our case focuses one, the principal revenue source at initial stages were selling stuffs. Revenues from utilities grew as Amazon devised new roles in the value chain and expanded its presence into that.

In the case of revenues from selling stuff- Amazon was largely successful in innovatively utilizing the web technological advances to convert as much their website visitors to customers as possible, which maximized the revenue stream over time.

Key Resources: On top of experienced and groomed human resources who had become part of *Amazon's* capability creation process in the new industry, its unique IT management practices, the exclusive web-based software and, strategically positioned warehouse and distribution sites have been *Amazon's* key resources as found in the case.

In case of economy of scale which Amazon was able to exploit seen at the end of the *case's* timeline, effective management and techniques of utilization of market information eventuated to be huge and unparalleled resource for Amazon.

Key activities: Key activities in this case refer to what a business must do to keep its determined business mode working. For Amazon, in addition of its core focus on bookselling which was the case at the beginning, more important was how it built its customer base, retained it and added value to the services provided.

Here in addition to bookselling or more products those they began to sell later, the key activity for Amazon has added value on top of linear value chains of product selling like- search convenience, the evolved IT infrastructure and its adopted management techniques, relevant recommendations and linking own services with other internet experiences of the customers.

Key partnerships: If we divide *Amazon's* partner network into online and offline groups, the online partners are mostly made to seek their solid and stable internet user bases whereas the offline partners are generally consistent with the linear value chain of bookselling.

Cost Structure: Cost structure refers to describe all costs incurred to operate the events within the business model. In this case as we find, *Amazon's* cost structure includes expansion of human resources, acquisition both domestically and internationally, brand creation and retention, marketing of products, and management and maintenance of high performance IT systems.

Putting together toward a business model

Identifying the above key issues from the case, a determined business model of Amazon.com, accepting the reality of its being a core frontrunner among a vigorously growing e-commerce, which reflects

in the Figure 1 to an extent, a business model for that timeline has been presented at the Figure 2.

Resource Based View

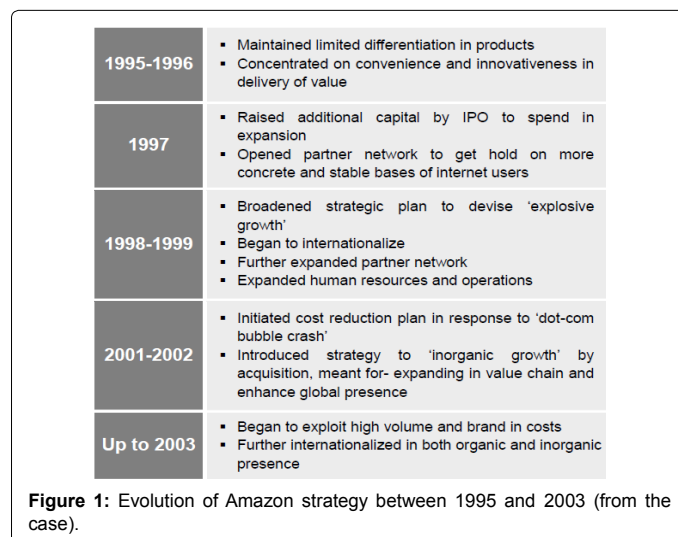
Resource based view is a way of viewing the firm and in turn of approaching strategy" [4]. It has been popularised by Hamel and Prahalad in their book "*Competing for the Future*" [5]. In this section we will analyse the *Stockport's* case materials to understand the resource based dynamics of Amazon that consists of its key resources, and the capabilities or the competitive advantages those resources incur (Figure 3).

It is imperative that a *company's* resources have certain features before then can be entitled to have availed sustainable competitive advantages [6]. Once identified the key resources of Amazon from *Stockport's* case, we will put them under way four categories of checks, regarding their- value, rareness, imitability and substitutability.

As a first mover particularly in the area of e-commerce which Amazon literally dominates, even in the timeframe of the scale, unique market intelligence that has been acquired in consistence of operational growth and strategies is an exclusive resource for Amazon. Particularly, the way Amazon strategizes to ensure customer engagements and exchanges, the intelligence of individual customer behaviour as well as segmented market behaviour is a unique source of *Amazon's* competitive advantage. Tangible resource in this case is the market intelligence and the entire information infrastructure, which they control centrally despite aggressive internationalization as a feature of the core competency, and the intangible resource is the way Amazon evolved its techniques and approaches to manage and utilize those tangible resources.

In addition to that, a very reliable, self-developed and interoperable web service infrastructure as well as the management approach to maintain and bring out advantages out of that infrastructure is notable resources for *Amazon's* unique capabilities in the business. We can categorize them as "threshold capabilities" considering that, though not like market information, information management and utilization techniques as discussed above, these capabilities has attained the some degree of uniqueness for Amazon [7].

In light of the findings in this section after analysing *Stockport's* case materials, we will present an interpretive diagram of *Amazon's* resource based view for the noted timeline.



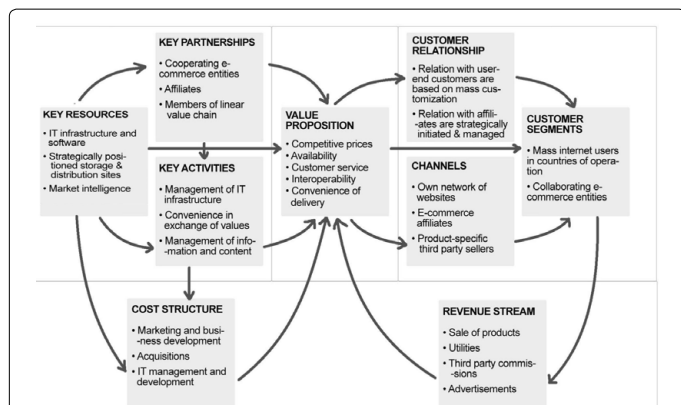


Figure 2: Determination of Amazon.com business model from the case; reproduced from Osterwalder's Business Model Canvas.

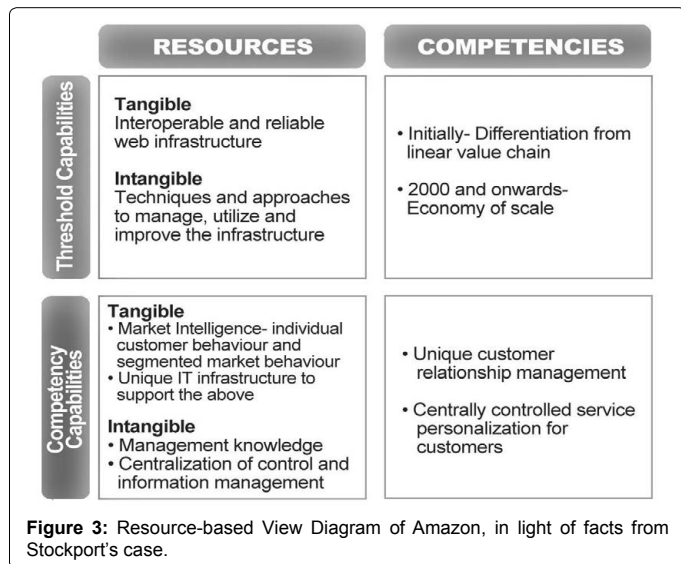


Figure 3: Resource-based View Diagram of Amazon, in light of facts from Stockport's case.

PESTLE Analysis

This section will cover the exchanges between macro environmental factors, and the behaviour and long-term plan for Amazon.com. Given the case, the perspective taken will cover the issues faced between 1999 and 2004. The theoretical framework used in the case is PESTLE or political-economic-social-technological-legal-environmental analysis.

PESTLE analysis looks through what influences a company takes from the broader environment that it belongs in, and contributes to the company's strategic planning to operate prosperously in the environment [8]. PESTLE is applied principally as an external analysis method for a company.

It is imperative that an effective strategic management analysis method optimally teases out the issues those are significant in influencing a company's much needed long term planning [9]. In light of this, we will be selective while applying PESTLE for our case of Amazon. Given a certain timeline and the realities of first- moving company in a whole new form of industry, a content external analysis for Amazon seems to be looking at the "PESTL" of "PESTLE"- which means the economic, social, technological and legal aspects.

Technological factor

Though "economic" factor comes at first from out selective PESTLE (ESTL), we will discuss that at the end maintaining the chronological order as given in *Stockport's* case.

Given the time frame in *Stockport's* case, the technological aspects having links with *Amazon's* business mostly oriented around personal computers. Any person in USA who had a personal computer with internet connection and can afford, was *Amazon's* prospective customer- a phenomenon that grew "international" as Amazon enhanced its global presence later in the timeline.

In addition to acquisition of new customers, their retention and optimization of the services delivered heavily borrow from technological advances. Initially *Amazon's* strategy contained two key features those were directly based on the two very relevant technological aspects:

- **Optimization of convenience in service and delivery** (Browsing, searching, reviews and content, recommendations and personalization and "One-click" technology)
- **Security** (Secure credit and payment)

With the growth of internet users as well as in their dependence on communication technologies for various aspects of lifestyle, *Amazon's* business flourished with opportunities of higher numbers of online shoppers.

Social factor

An important social factor that came up from the case influencing how Amazon strategized in long-term is ensuring user-enabled recommendations, which we can also call "peer recommendations" [2].

Growing dependence of users on the internet and communication devices for various lifestyle aspects has turned the internet into an effective medium to socialize, which implies the users "staying in touch" with a number of peers while staying active in internet. *Amazon's* unique content management techniques as seen in the case tended to exploit this phenomenon to by making happen a user-enabled promotion cycle. This increases number of sales and acquisition of customers which happened principally due to "peer recommendations" as a social factor.

Legal factor

Legal factor, though not distinctly identified in the case, can be talked of analysing *Amazon's* notable first mover advantages. The new form of business which Amazon largely devised and strategically positioned itself into with first move advantages, implies that there were limited legal barriers and regulations then, the same applying to other countries where Amazon opened operations in after initiating internationalization. This presents two issues before Amazon to deal with and accommodate into their strategic thinking,

Freeness and flexibility: Absence of stricter or any legal barriers or regulations generally hints at freeness in trading and expanding, and flexibility and strategizing, which can mark stronger market positions, more revenues and sequent advantages, mostly happened due to *Amazon's* first-mover advantage.

Security and rights: Absence of consolidated regulatory terms also means less effective role of the authorities in case of unhealthy business

practices and competition offerings of others in the industry. These issues come in the "first-mover" package and need to be dealt effectively.

Economic factor

Economic factors within the timeframe of *Stockport's* case materialize at a much matured stage and are mostly triggered by a phenomenon named as "*dot-com bubble burst*". The "*dot-com bubble*", containing epic success stories and legends about the e-commerce companies, eventuated in a burst in early 2000. Share prices of the e-commerce entities in United States suffered badly and forced them to take measures, which to some extent were survivalist but at the end about devising long term strategies [10].

This economic factor was of great influence for Amazon. Despite being one of the entities who survived, Amazon for the first time began to diversify products to sell and entered other markets. Though the internationalization and expansion did not seize and there was an increase in senior management human resources, few cost reduction measures were seen which can be taken the "*responses*" to that economic factor. Acquisitions after that phenomenon became more strategic and focused in growth, which is another patten of the response of that economic factor [11-13].

Conclusion

Considering awareness of *Amazon's* present business model, approaches and strategic positioning, analytical review of the case offered a degree of understanding of their shaping over the time since the *company's* inception. As a pioneering frontrunner in a new form of business, Amazon experienced various issues those they dealt with in their own unique ways. From the strategic management point of view, it was an imperative to look into those issues in basis of theoretical frameworks. Application of *Osterwalder's* framework to devise a business model was thoroughly useful that can offer the reader a comparison with *Amazon's* current business model to understand how it evolved. As the teased out key issues were investigated with the hat of "*resource based view*", this gave the opportunity to touch on the *Amazon's* competitive advantage and

the features of competencies. In the case of externalities, application of the analysis method was selective as per *Amazon's* relevance. By this, an urge of strategic thinking, from the point of view of Amazon from the case, was attempted to be made underpinning that what companies generally face before a shit and what make them to undertake the long-term plans that they later adopt.

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