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Advantage Approach Concepts 14th Edition David 0132666219
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Amazon – 2011

Forest David

A. Case Abstract

Amazon.com, Inc. is a Fortune 500 company based in Seattle, Washington. Amazon bursts onto the Internet retailer scene in July 1995 and today offers the biggest selection of products among all companies worldwide. Amazon.com, Inc. seeks to be a company where customers can find and discover anything they might want to buy online. The company strives to offer customers the lowest possible prices on millions of unique new, refurbished and used items in categories such as Books; Movies, Music & Games; Digital Downloads; Electronics & Computers; Home & Garden; Toys, Kids & Baby; Grocery; Apparel, Shoes & Jewelry; Health & Beauty; Sports & Outdoors; and Tools, Auto & Industrial.

Amazon recently introduced new, under \$100 non-color and under \$200 color Kindle e-readers, with aggressive plans for both video and self-publishing. Amazon now competes with a variety of technology companies such as Apple with its e-reader and with Netflix for streaming video, which is an area where the Kindle Touch and Kindle Fire will play. Amazon also competes with eBay and discount retailers like Best Buy and Wal-Mart for its electronic products, books and apparel.

Amazon's latest generation Kindle is the lightest, most compact Kindle ever and features the same 6-inch, most advanced electronic ink display that reads like real paper even in bright sunlight. Kindle Touch 3G is a top of the line e-reader and offers the same new design and features of Kindle Touch, with the

unparalleled added convenience of free 3G. Kindle Fire is the Kindle for movies, TV shows, music, books, magazines, apps, games and web browsing with all the content, free storage in the Amazon Cloud, Whispersync, Amazon Silk (Amazon's new revolutionary cloud-accelerated web browser), vibrant color touch screen, and powerful dual-core processor.

B. Vision Statement (proposed)

To become the number 1 online retail store in the world.

C. Mission Statement (proposed)

At Amazon we strive to offer our customers (1) a wide range of products including everything from books, media, watches, sleeping bags to home furnishings and much more (2) all at the best price available (7) from the most trustworthy merchants (5, 6). Our team of executives is the best in the industry and we offer them attractive salary and benefit packages (9). We strive to serve the United States and world markets (4) by using the latest technology to ensure smooth safe transactions (4). At Amazon we also believe in being a good corporate citizen and giving back to the communities in which we operate (8).

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees

D. External Audit

Opportunities

1. Online shopping provides convenience, greater choices and often tax free shopping.
2. Weak stock market and IPO environment will limit startup companies for forming.
3. Stock price is near all time highs with PE ratio of 114.
4. Weak dollar should boost international sales.
5. More people know English now than ever before.
6. Digital distribution of media is growing at a rate of 30% a year.
7. Internet companies fared better than traditional companies during the economic downturn.

Threats

1. Chinese company 360buy.com expects to report 2010 revenues in excess of \$1.5 billion.
2. Barnes & Noble, Borders Group, and Books a Million are large brick and mortar and web based competitors.
3. PayPal is owned by competitor EBay
4. Potential for attacks on Amazon's website and servers.

5. PE ratio of 114, stock is likely vastly overvalued at present.
6. Poor global economy has reduced personal spending.
7. Barriers to entry are low as startups can be launched for relatively low costs.
8. Mergers continue across many different Internet based segments

Competitive Profile Matrix

<u>Critical Success Factors</u>	<u>Weight</u>	<u>Amazon</u>		<u>Ebay</u>		<u>Barnes & Noble</u>	
		<u>Rating</u>	<u>Score</u>	<u>Rating</u>	<u>Score</u>	<u>Rating</u>	<u>Score</u>
Market Share	0.12	4	0.48	3	0.36	2	0.24
Inventory System	0.05	4	0.20	2	0.10	3	0.15
Financial Position	0.08	4	0.32	3	0.24	2	0.16
Product Quality	0.10	4	0.40	3	0.30	2	0.20
Customer Loyalty	0.03	4	0.12	3	0.09	2	0.06
Sales Distribution	0.08	4	0.32	3	0.24	2	0.16
Global Expansion	0.09	4	0.36	3	0.27	2	0.18
Advertising	0.10	2	0.20	1	0.10	3	0.30
E-Commerce	0.15	4	0.60	3	0.45	2	0.30
Customer Service	0.07	4	0.28	2	0.14	3	0.21
Price Competitiveness	0.10	4	0.40	3	0.30	2	0.20
Management Experience	0.03	4	0.12	2	0.06	3	0.09
Totals	1.00		3.80		2.65		2.25

EFE Matrix

<u>Opportunities</u>	<u>Weight</u>	<u>Rating</u>	<u>Weighted S</u>
1. Online shopping provides convenience, greater choices and often tax free shopping.	0.07	4	0.28
2. Weak stock market and IPO environment will limit startup companies for forming.	0.06	2	0.12
3. Stock price is near all time highs with PE ratio of	0.09	2	0.18
4. 114. Weak dollar should boost international sales.	0.06	4	0.24
5. More people know English now than ever before.	0.05	4	0.20
6. Digital distribution of media is growing at a rate of 30% a	0.07	3	0.21
7. year. Internet companies fared better than traditional companies during the economic downturn.	0.04	4	0.16

Threats		Weight	Rating	Weighted S
1.	Chinese company 360buy.com expects to report 2010 revenues in excess of \$1.5 billion.	0.09	2	0.18
2.	Barnes & Noble, Borders Group, and Books a Million are large brick and mortar and web based competitors.	0.09	3	0.27
3.	PayPal is owned by competitor EBay	0.06	1	0.06
4.	Potential for attacks on Amazon's website and servers.	0.03	4	0.12
5.	PE ratio of 114, stock is likely vastly overvalued at present.	0.08	3	0.24
6.	Poor global economy has reduced personal spending.	0.08	2	0.16
7.	Barriers to entry are low as startups can be launched for relatively low costs.	0.05	2	0.10
8.		0.08	3	0.24
TOTALS		1.00		2.76

E. Internal Audit

Strengths

1. Amazon was named world's top brand in 2010.
2. Amazon added 28 new fulfillment centers in 2010 and 2011 to bring their total to 52 centers.
3. Kindle is offered in more than 100 countries.
4. Strategic relationship with McGraw-Hill in 2009 to target sales in higher education markets.
5. In 2010 Amazon, increased jewelry sales by 13 percent while competitors experienced drops of over 20 percent.
6. Net sales were up 80% from year end 2008 to 2010.
7. Net sales from electronics were up 150% from 2008 to 2010.
8. *Business Week* named Amazon number one in customer service in 2010.
9. CEO Bezos has hired executives from Wal-Mart, Microsoft, Barnes & Noble, and other top companies.
10. Amazon increased their employees by 45% in 2011.

Weaknesses

1. Amazon lacks a clear mission statement.
2. Net sales in media have been stable over the last 3 years.
3. Only one woman in upper management.
4. Goodwill has increased by 200% from 2008 to 2010 to \$1.3 billion.
5. Streaming movies for free to Prime subscribers hurts margins.
6. Over \$3 billion in inventory that must be stored and maintained.

Financial Ratio Analysis

Growth Rate Percent	Amazon	Industry	S&P 500
Sales (Qtr vs year ago qtr)	43.90	37.70	14.40
Net Income (YTD vs YTD)	NA	NA	NA

Net Income (Qtr vs year ago qtr)	-72.70	-24.40	49.60
Sales (5-Year Annual Avg.)	32.14	24.34	8.29
Net Income (5-Year Annual Avg.)	28.17	22.20	8.71
Dividends (5-Year Annual Avg.)	NA	NA	5.64
Profit Margin Percent			
Gross Margin	22.5	37.5	39.0
Pre-Tax Margin	2.7	7.6	18.2
Net Profit Margin	2.0	6.5	13.2
5Yr Gross Margin (5-Year Avg.)	22.5	38.5	39.7
Liquidity Ratios			
Debt/Equity Ratio	0.00	0.11	0.97
Current Ratio	1.3	1.4	1.2
Quick Ratio	0.9	0.6	0.8
Profitability Ratios			
Return On Equity	12.3	11.7	27.8
Return On Assets	5.3	5.8	8.8
Return On Capital	9.8	9.4	11.8
Return On Equity (5-Year Avg.)	25.7	19.6	23.9
Return On Assets (5-Year Avg.)	7.6	7.4	8.0
Return On Capital (5-Year Avg.)	17.1	14.0	10.8
Efficiency Ratios			
Income/Employee	26,083	44,745	126,738
Revenue/Employee	1 Mil	999,218	1 Mil
Receivable Turnover	35.5	25.1	15.2
Inventory Turnover	10.7	7.2	12.3

Net Worth Analysis (in millions)

Stockholders' Equity	\$6,864
Net Income x 5	\$5,760
(Share Price/EPS) x Net Income	\$131,571
Number of Shares Outstanding x Share Price	\$98,518
Method Average	\$60,678

IFE Matrix

Strengths		Weight	Rating	Weighted Score
1.	Amazon was named world's top brand in 2010.	0.10	4	0.40
2.	Amazon added 28 new fulfillment centers in 2010 and 2011 to bring their total to 52 centers.	0.07	4	0.28
3.	Kindle is offered in more than 100 countries.	0.07	4	0.28
4.	Strategic relationship with McGraw-Hill in 2009 to target sales in higher education markets.	0.05	4	0.20
5.	In 2010 Amazon, increased jewelry sales by 13 percent while competitors experienced drops of over 20 percent.	0.07	4	0.28
6.	Net sales were up 80% from year end 2008 to 2010.	0.10	4	0.40
7.	Net sales from electronics were up 150% from 2008 to 2010.	0.09	4	0.36
8.	Business Week named Amazon number one in customer service in 2010.	0.04	4	0.16
9.	CEO Bezos has hired executives from Wal-Mart, Microsoft, Barnes & Noble, and other top companies.	0.06	4	0.24
10.	Amazon increased their employees by 45% in 2011.	0.08	4	0.32

Weaknesses		Weight	Rating	Weighted S
1.	Amazon lacks a clear mission statement.	0.05	1	0.05
2.	Net sales in media have been stable over the last 3	0.05	2	0.10
3.	years. Only one woman in upper management.	0.03	1	0.03
4.	Goodwill has increased by 200% from 2008 to 2010 to \$1.3	0.07	1	0.07
5.	billion. Streaming movies for free to Prime subscribers hurts	0.05	2	0.10
6.	margins. Over \$3 billion in inventory that must be stored and	0.02	2	0.04
TOTALS		1.00		3.31

F. SWOT

SO Strategies

1. Add 10 new fulfillment centers financing by common stock (S2, O3).
2. Expand Kindle into 50 new countries in the next 3 years (S3, O4, O5).
3. Hire 3 more top executives from leading companies (S9, O7).

WO Strategies

1. Move more toward a JIT inventory system and have merchants ship products direct rather than having large inventory (W3, W7, O6).
2. Increase advertising by 20% in international markets for the sell of media related products (W2, O4).

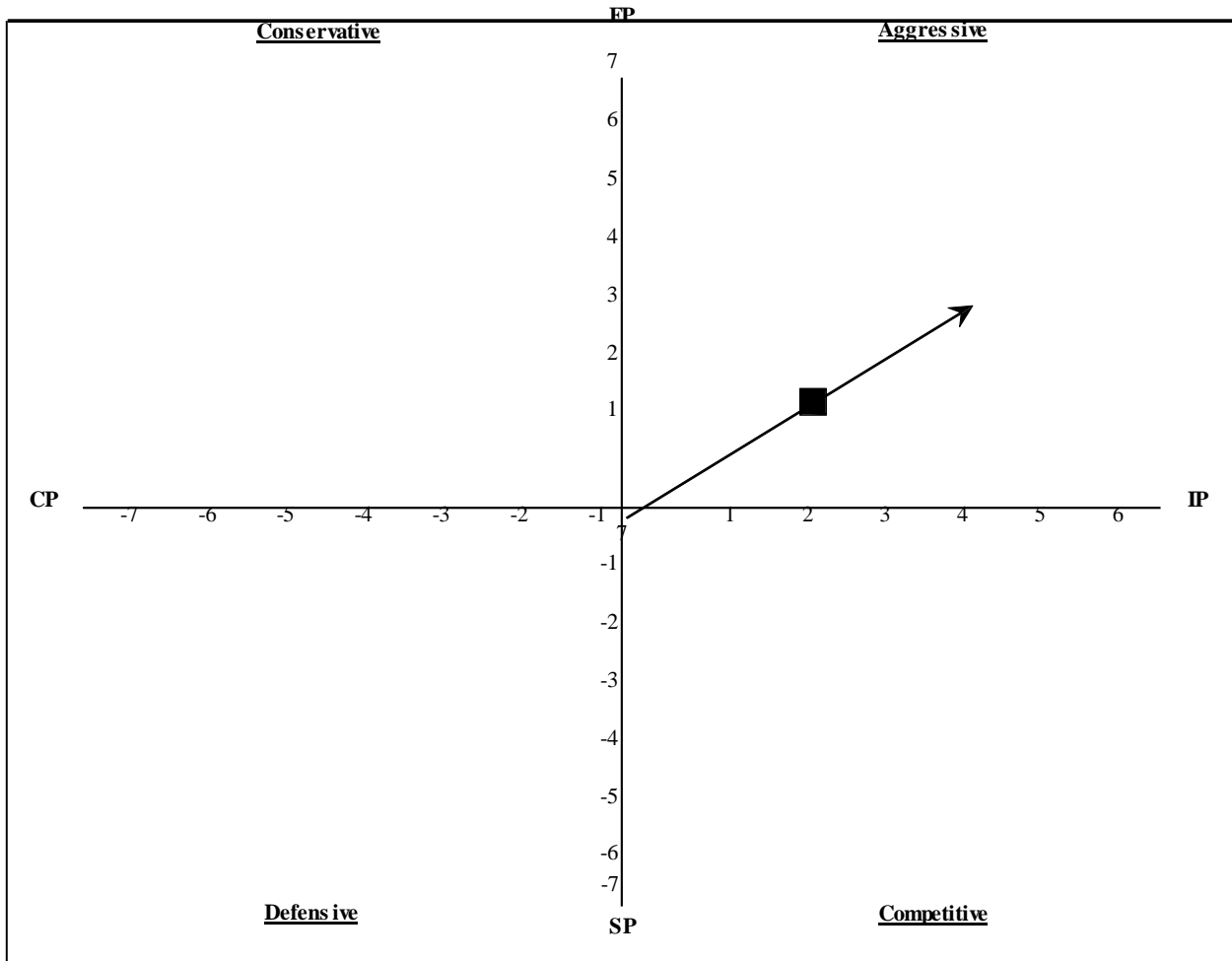
ST Strategies

1. Increase marketing and advertising in China by 15% (S1, T1).
2. Develop an online payment system to rival PayPal (S6, S7, S9, O3).

WT Strategies

1. Develop a detailed mission statement to better compete in a weak economy. (W1, T6).
2. Increase advertising by 15% in media to compete with the brick and mortar retail bookstores. (W2, T2).

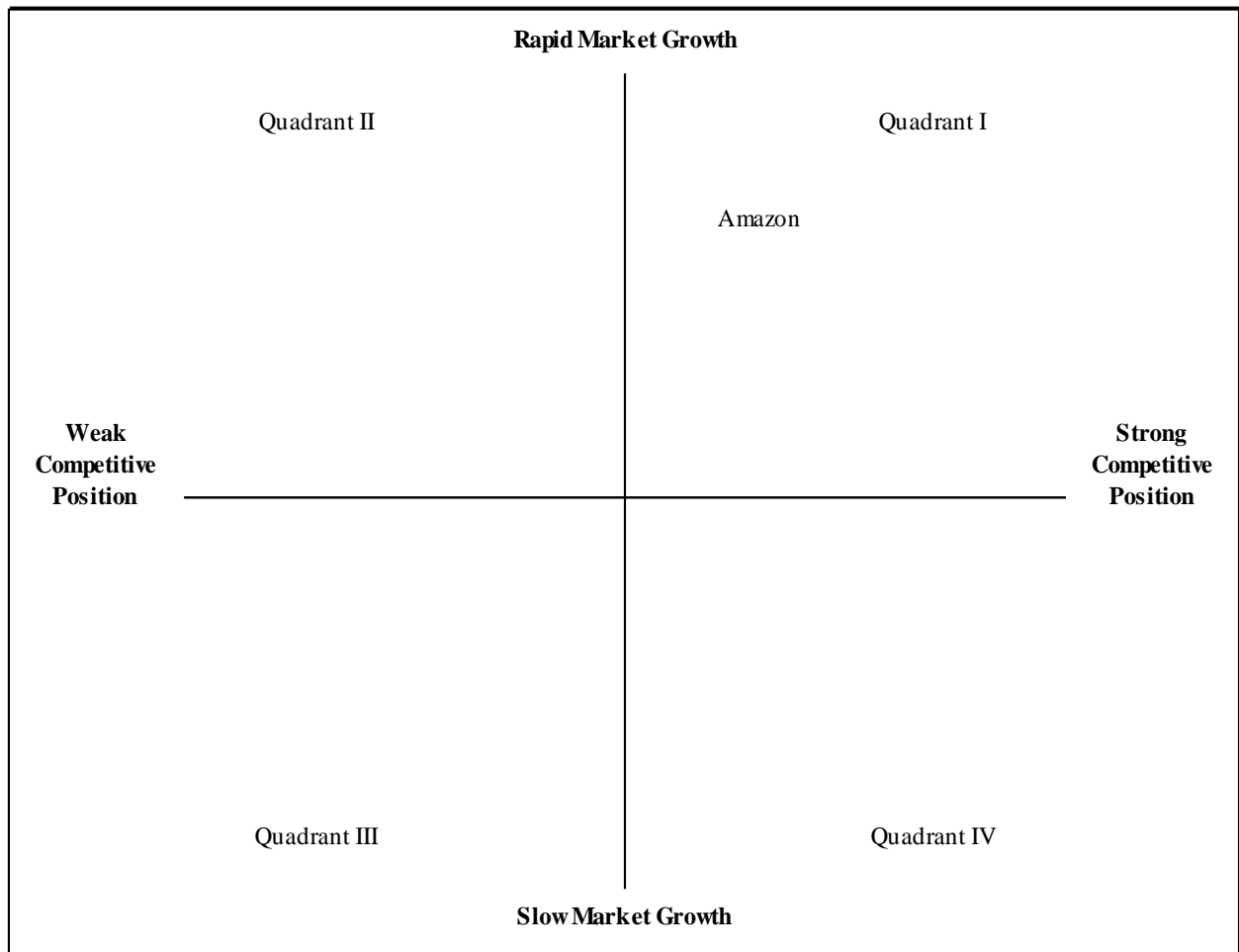
G. SPACE Matrix



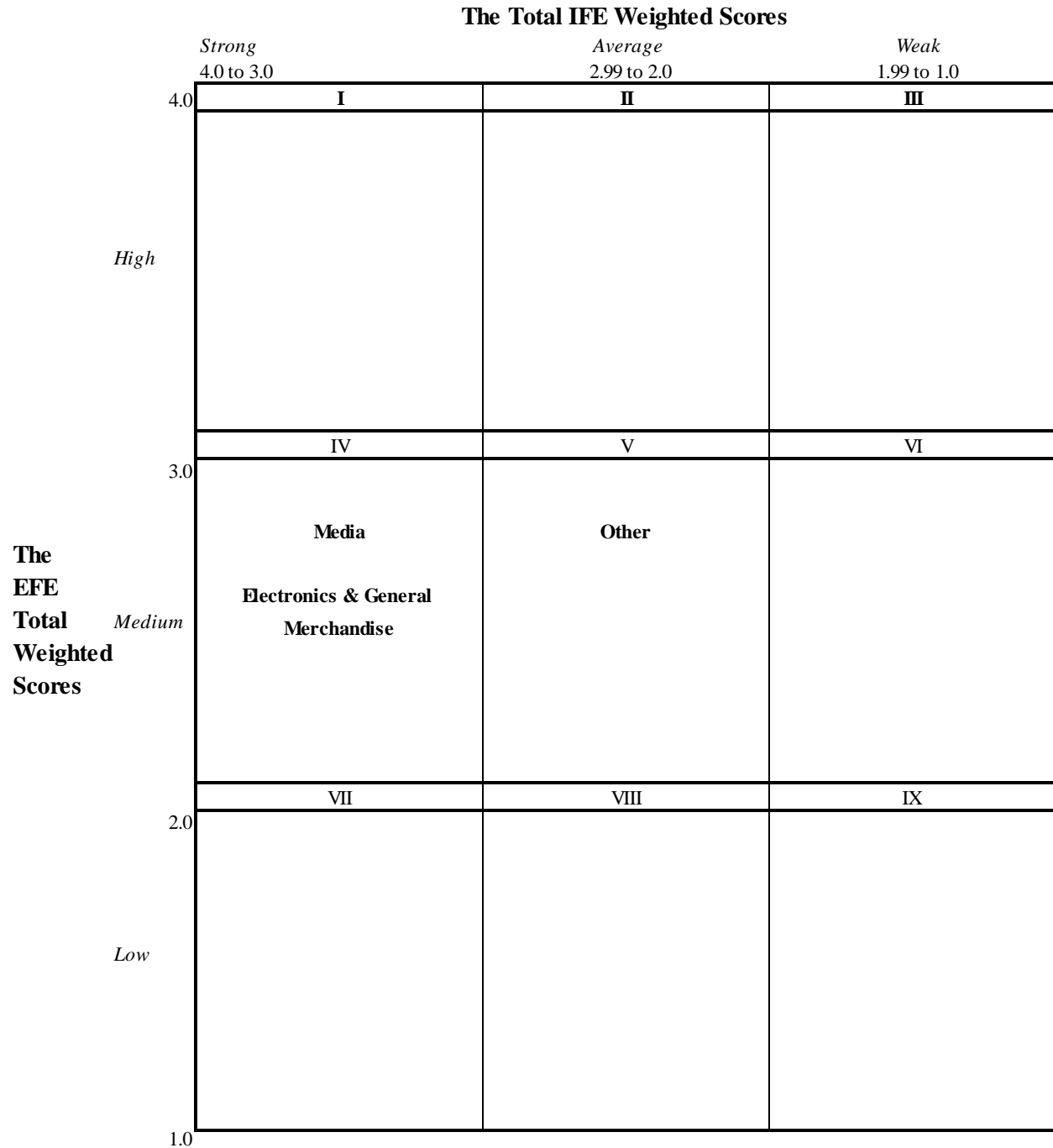
<i>Internal Analysis:</i>		<i>External Analysis:</i>	
<u>Financial Position (FP)</u>		<u>Stability Position (SP)</u>	
Return on Equity (ROE)	3	Rate of Inflation	-2
Leverage	4	Technological Changes	-2
Liquidity	5	Price Elasticity of Demand	-2
Working Capital	4	Competitive Pressure	-4
Cash Flow	4	Barriers to Entry into Market	-3
Financial Position (FP) Average	4.0	Stability Position (SP) Average	-2.6

<i>Internal Analysis:</i>		<i>External Analysis:</i>	
Competitive Position (CP)		Industry Position (IP)	
Market Share	-1	Growth Potential	5
Product Quality	-2	Financial Stability	5
Customer Loyalty	-2	Ease of Entry into Market	2
Technological know-how	-2	Resource Utilization	4
Control over Suppliers and Distributors	-3	Profit Potential	6
Competitive Position (CP) Average	-2.0	Industry Position (IP) Average	4.4

H. Grand Strategy Matrix



I. The Internal-External (IE) Matrix



Revenues (in millions)			
Product Class	2010	2009	2008
Media	\$14,888	\$12,774	\$11,084
Electronics & General Merchandise	18,363	11,082	7,540
Other	953	653	542

J. OSPM

		<i>Add 10 new fulfillment centers</i>			<i>Expand Kindle into 50 new countries</i>	
Opportunities		Weight	AS	TAS	AS	TAS
1.	Online shopping provides convenience, greater choices and often tax free shopping.	0.07	3	0.21	4	0.28
2.	Weak stock market and IPO environment will limit startup companies for forming.	0.06	4	0.24	3	0.18
3.	Stock price is near all time highs with PE ratio of 114.	0.09	4	0.36	3	0.27
4.	Weak dollar should boost international sales.	0.06	2	0.12	4	0.24
5.	More people know English now than ever before.	0.05	2	0.10	4	0.20
6.	Digital distribution of media is growing at a rate of 30% a year.	0.07	2	0.14	3	0.21
7.	Internet companies fared better than traditional companies	0.04	2	0.08	4	0.16

Threats		Weight	AS	TAS	AS	TAS
1.	Chinese company 360buy.com expects to report 2010 revenues in excess of \$1.5 billion.	0.09	2	0.18	4	0.36
2.	Barnes & Noble, Borders Group, and Books a Million are large brick and mortar and web based competitors.	0.09	4	0.36	2	0.18
3.	PayPal is owned by competitor EBay	0.06	0	0.00	0	0.00
4.	Potential for attacks on Amazon's website and servers.	0.03	0	0.00	0	0.00
5.	PE ratio of 114, stock is likely vastly overvalued at present.	0.08	3	0.24	2	0.16
6.	Poor global economy has reduced personal spending.	0.08	0	0.00	0	0.00
7.	Barriers to entry are low as startups can be launched for relatively low costs.	0.05	0	0.00	0	0.00
8.	Mergers continue across many different Internet based	0.08	0	0.00	0	0.00

		<i>Add 10 new fulfillment centers</i>			<i>Expand Kindle into 50 new countries</i>	
Strengths	Weight	AS	TAS	AS	TAS	
1. Amazon was named world's top brand in 2010.	0.10	3	0.30	4	0.40	
2. Amazon added 28 new fulfillment centers in 2010 and 2011 to bring their total to 52 centers.	0.07	4	0.28	1	0.07	
3. Kindle is offered in more than 100 countries.	0.07	1	0.07	4	0.28	
4. Strategic relationship with McGraw-Hill in 2009 to target sales in higher education markets.	0.05	0	0.00	0	0.00	
5. In 2010 Amazon, increased jewelry sales by 13 percent while competitors experienced drops of over 20 percent.	0.07	3	0.21	1	0.07	
6. Net sales were up 80% from year end 2008 to 2010.	0.10	3	0.30	2	0.20	
7. Net sales from electronics were up 150% from 2008 to 2010.	0.09	2	0.18	4	0.36	
8. Business Week named Amazon number one in customer service in 2010.	0.04	2	0.08	3	0.12	
9. CEO Bezos has hired executives from Wal-Mart, Microsoft, Barnes & Noble, and other top companies.	0.06	0	0.00	0	0.00	
10. Amazon increased their employees by 45% in 2011.	0.08	0	0.00	0	0.00	

Weaknesses		Weight	AS	TAS	AS	TAS
1. Amazon lacks a clear mission statement.	0.05	0	0.00	0	0.00	
2. Net sales in media have been stable over the last 3	0.05	2	0.10	4	0.20	
3. years. Only one woman in upper management.	0.03	0	0.00	0	0.00	
4. Goodwill has increased by 200% from 2008 to 2010 to \$1.3	0.07	0	0.00	0	0.00	
5. billion. Streaming movies for free to Prime subscribers hurts	0.05	0	0.00	0	0.00	
6.	0.02	2	0.04	1	0.02	
TOTALS			3.59	3.96		

K. Recommendations

1. Add 10 new fulfillment centers financing by common stock at $\$30M \times 10 = \$300M$
2. Expand Kindle into 50 new countries in the next 3 years at $\$200M$
3. Hire 3 more top executives from leading companies at $\$25M$
4. Develop online payment system to rival PayPal at $\$300M$

L. EPS/EBIT Analysis (in millions)

Amount Needed: $\$825M$
 Stock Price: $\$217$
 Shares Outstanding: 454
 Interest Rate: 5%
 Tax Rate: 24%

	<u>Common Stock Financing</u>			<u>Debt Financing</u>		
	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	\$1,000	\$1,500	\$2,000	\$1,000	\$1,500	\$2,000
Interest	0	0	0	41	41	41
EBT	1,000	1,500	2,000	959	1,459	1,959
Taxes	240	360	480	230	350	470
EAT	760	1,140	1,520	729	1,109	1,489
# Shares	458	458	458	454	454	454
EPS	1.66	2.49	3.32	1.60	2.44	3.28

	<u>20 Percent Stock</u>			<u>80 Percent Stock</u>		
	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	\$1,000	\$1,500	\$2,000	\$1,000	\$1,500	\$2,000
Interest	33	33	33	8	8	8
EBT	967	1,467	1,967	992	1,492	1,992
Taxes	232	352	472	238	358	478
EAT	735	1,115	1,495	754	1,134	1,514
# Shares	455	455	455	457	457	457
EPS	1.62	2.45	3.29	1.65	2.48	3.31

M. Epilogue

For its third quarter ended September 30, 2011, Amazon's sales increased 44 percent to \$10.88 billion, compared with \$7.56 billion in third quarter 2010. Operating income was \$79 million in the third quarter, compared with \$268 million in third quarter 2010. However, Amazon's net income decreased 73 percent to \$63 million in the third quarter, compared with net income of \$231 million in third quarter 2010.

“September 28, 2011 was the biggest order day ever for Kindle, even bigger than previous holiday peak days – we introduced Kindle Fire for \$199, Kindle Touch 3G for \$149, Kindle Touch for \$99, and our all new Kindle for only \$79,” said Jeff Bezos, founder and CEO of Amazon.com. “In the three weeks since launch, orders for electronic ink Kindles are double the previous launch. And based on what we're seeing with Kindle Fire pre-orders, we're increasing capacity and building millions more than we'd already planned.”

During that third quarter, Amazon introduced the Kindle Fire, a new class of Kindle for movies, TV shows, music, books, magazines, apps, games, and web browsing with all the content, free storage in the Amazon Cloud, Whispersync, vibrant color touch screen, a powerful dual-core processor, and “Amazon Silk” – Amazon's new revolutionary web browser that accelerates the power of the mobile device by using the computing speed and power of the Amazon Web Services Cloud. Kindle Fire is only \$199. Also during that quarter, Amazon introduced three all-new Kindle e-readers that are smaller, lighter, and more affordable than ever before. The \$79 latest generation Kindle is for customers who want the lightest, most compact Kindle at an incredible price. The \$99 Kindle Touch includes an easy-to-use touch screen. Kindle Touch 3G is the top of the line e-reader with the unparalleled convenience of free 3G where customers never have to hunt or pay for a Wi-Fi hotspot – you simply download and read books anytime and anywhere – all for \$149. Each of these e-readers includes all the benefits of the most advanced electronic ink display that reads like real paper, even in bright sunlight.

Amazon.com recently signed licensing agreements with Twentieth Century Fox and PBS that allow the

millions of Amazon Prime members to instantly stream a broad selection of popular movies and TV shows from their vast libraries. These deals will bring the total number of Prime instant videos to more than 12,000 movies and TV shows from partners such as CBS, FOX, PBS, NBCUniversal, Sony, Warner Bros., and many more. Also, Amazon Publishing released 61 titles in the third quarter of 2011, including Kindle bestsellers “The Detachment” by Barry Eisler, “Dove Season” by Johnny Shaw, and “A Small Fortune” by Audrey Braun. Recent acquisitions include Tim Ferriss’ “The 4-Hour Chef,” Penny Marshall’s memoir “My Mother Was Nuts,” and the epic Foreworld Series project led by Neal Stephenson and Greg Bear. Amazon Publishing also announced a new imprint, 47North, which is dedicated to science-fiction, fantasy, and horror. 47North joins sister imprints AmazonEncore, AmazonCrossing, Powered by Amazon, Montlake Romance, and Thomas & Mercer.

Amazon’s North America segment sales were \$5.93 billion in the third quarter of 2011, up 44 percent from the year earlier quarter. The company’s international segment sales, representing German, Japanese, French, Chinese, Italian and Spanish sites, were \$4.94 billion, up 44 percent from third quarter 2010.

As of late 2011, Amazon collects sales tax in only five states -- Kansas, Kentucky, New York, North Dakota and Washington -- the only markets where it has stores or offices. But if other state and local governments have their way, this could soon change. A division of Amazon.com Inc., Quidsi is getting into groceries, taking on industry giants including Safeway Inc and Kroger Co. On its website Soap.com, Quidsi recently launched an online grocery business with about 7,000 products including coffee, tea, snacks, cereal, pasta, baking and canned goods. The company said it plans to increase the number of products to 10,000 in about two weeks. Groceries will be delivered in one to two days and shipping is free for orders over \$39. Groceries are the latest retail category to be tackled by Quidsi, which was acquired by Amazon for about \$500 million in late 2010. Quidsi also runs Diapers.com, which sells baby-care products; BeautyBar.com, a cosmetics website; Wag.com, an online pet care store; and YoYo.com, which sells toys.