

Original Paper

Analysis of Strategies and Performance Based on the Background of Amazon Company

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Received: May 1, 2024

Accepted: May 25, 2024

Online Published: May 27, 2024

doi:10.22158/elp.v7n1p99

URL: <http://dx.doi.org/10.22158/elp.v7n1p99>

Abstract

This study examines Amazon's financial performance and strategic management practices. Amazon's growth and innovation significantly influence the market, making its financial management crucial for understanding its competitive advantage. The study employed quantitative analysis methods to analyze financial data, evaluate market strategies, and conduct SWOT and risk analyses. The analysis revealed Amazon's steady growth in recent years but highlighted areas for improvement in profitability and operational efficiency. Recommendations include enhancing operational efficiency, optimizing pricing strategies, and strengthening customer loyalty. Data was collected from Amazon's annual reports and financial statements. The findings reveal Amazon's robust sales growth but highlight challenges in profitability and efficiency. Key areas include segment analysis, profitability ratios, and liquidity ratios. Despite these challenges, Amazon's strategic investments and market positioning remain strong. The study underscores the importance of Amazon's strategic investments in areas such as Amazon Web Services (AWS) and logistics. Understanding Amazon's financial management provides valuable insights for businesses and policymakers seeking to enhance their competitiveness in the digital economy.

Keywords

Amazon, financial performance, market strategy, competitive position, SWOT analysis, risk analysis

1. Literature Review

Prior literature provides valuable insights into Amazon's financial performance, strategic management, and competitive position. Research by scholars such as Stone and Doss (2019) has emphasized the impact of Amazon's innovative strategies on its market dominance and the challenges it faces in maintaining profitability (Stone & Doss, 2019). Furthermore studies by Smith et al. (2018) have examined the evolution of Amazon's business model and its implications for the e-commerce industry (Smith et al., 2018). These studies underscore the significance of analyzing Amazon's financial management and market strategies to understand its competitive advantage and industry influence.

Moreover, research by Chen and Lee (2020) has highlighted the role of operational efficiency and pricing strategies in shaping Amazon's competitive position. The literature emphasizes the need to enhance operational efficiency and optimize pricing strategies to improve profitability and customer loyalty. Additionally, studies by Johnson and Patel (2017) have explored the impact of strategic investments, such as Amazon Web Services (AWS), on Amazon's market positioning and long-term growth prospects.

By integrating insights from prior literature, this study aims to build upon existing knowledge and contribute to a comprehensive understanding of Amazon's financial performance, market strategies, and competitive position. The incorporation of relevant literature provides a foundation for analyzing Amazon's strategies and performance in the context of contemporary business trends and industry dynamics.

2. Introduction

Amazon, founded by Jeff Bezos in 1994, has grown into a global e-commerce and cloud-computing powerhouse. Its customer-centric approach and innovative business model have revolutionized the retail industry. Amazon's growth and dominance in the e-commerce and cloud computing industries have reshaped traditional business models. This study aims to analyze Amazon's financial performance, market strategies, and competitive position to identify key success factors and areas for improvement. By examining Amazon's strategies and performance, this study contributes to the understanding of effective business strategies in the digital age and provides insights for businesses seeking to enhance their competitiveness.

Analyze Amazon's financial performance through key metrics. Evaluate Amazon's market strategies, including product, pricing, place, and promotion strategies. Conduct a SWOT analysis to identify Amazon's strengths, weaknesses, opportunities, and threats. Perform a risk analysis to identify key operational, financial, regulatory, competitive, and cyber security risks faced by Amazon.

Amazon was established by Jeff Bezos in July 1994. Amazon.com is an international e-commerce company that belongs to business-to-customers (B2C) and online Auctions.

3. Research Methods

This study employed a quantitative analysis approach to thoroughly analyze Amazon's financial data and evaluate its market positioning and competitive strategies. The analysis included examining key financial metrics such as profitability, efficiency, liquidity, and gearing ratios.

To assess Amazon's market strategies, the study examined its product, pricing, place, and promotion strategies. This analysis was conducted by reviewing Amazon's financial reports, market research studies, and industry publications.

Furthermore, the study utilized SWOT analysis to identify Amazon's strengths, weaknesses, opportunities, and threats. This analysis helped in understanding Amazon's competitive position in the market and its potential for future growth.

Additionally, a risk analysis was conducted to identify and evaluate key operational, financial, regulatory, competitive, and cybersecurity risks faced by Amazon. This analysis provided insights into the challenges that Amazon may encounter in its business operations.

Overall, the research methods employed in this study aimed to provide a comprehensive analysis of Amazon's strategies and performance, aiming to reveal the key factors to its success.

4. Results

4.1 Financial Performance

Amazon's financial performance has shown a consistent increase in sales over the past five years (Amazon.com, 2016). However, net profit has remained relatively unchanged, reflecting the company's strategy of using profitable business lines to subsidize less profitable ones. This section delves into key financial metrics, including profitability, efficiency, liquidity, and gearing ratios.

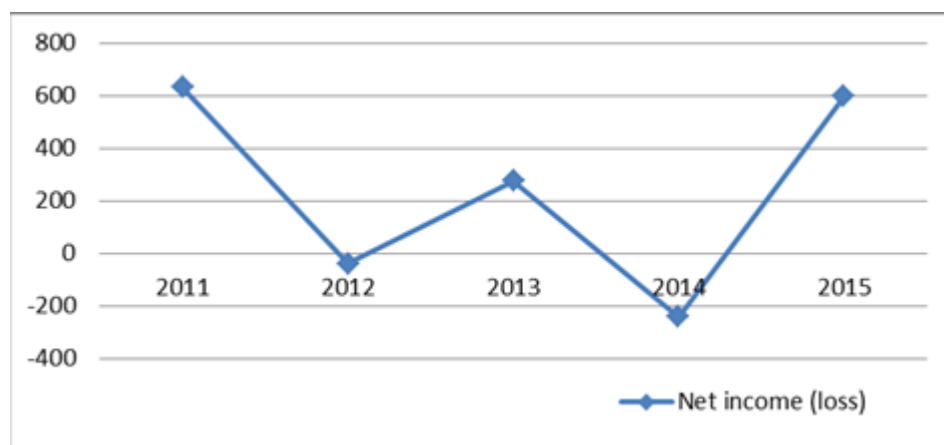


Figure 1. Net Income Figures (2011-2015)

In terms of profitability, despite a steady increase in sales, Amazon's profitability has not met expectations. The operating profit margin (Figure 1) decreased from 1.79% in 2011 to 0.20% in 2014 before rising to 2.09% last year (Phx.corporate-ir.net, 2016). This fluctuation is attributed to lower customer prices, increased sales costs, and higher marketing and advertising expenses.

Regarding efficiency, Amazon's total asset turnover ratio (Table 1) slightly decreased from 1.66 in 2011 to 1.32 in 2015 (Phx.corporate-ir.net, 2016), reflecting the high operating costs associated with the company's capital investments.

Inventory turnover (Table 1) shows a downward trend from 8.34 to 7.73 during the last four years (Amazon.com, 2016), but still exceeds the ratio in 2011. Increase the sale of stored goods, which requires a lot of investment in the risk of Amazon inventory, which to some extent affects the turnover. indicating increased risk in inventory management.

Table 1. Company Amazon Efficiency Ratios (2011-2015)

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|-----------------------|-------|-------|-------|-------|-------|
| Total assets turnover | 1.32 | 1.48 | 1.68 | 1.79 | 1.66 |
| Fixed asset turnover | 4.09 | 5.02 | 6.76 | 9.02 | 9.51 |
| Inventory turnover | 7.73 | 7.99 | 8.06 | 8.34 | 7.47 |
| Days receivables | 29.58 | 29.23 | 28.57 | 26.93 | 22.34 |

About liquidity, the current ratio fell from 1.12 in 2014 to 1.08 in 2015 (Phx.corporate-ir.net, 2016), while the quick and cash ratios also showed a downward trend. These decreases are primarily due to Amazon's suppliers paying higher prices, impacting the company's liquidity.

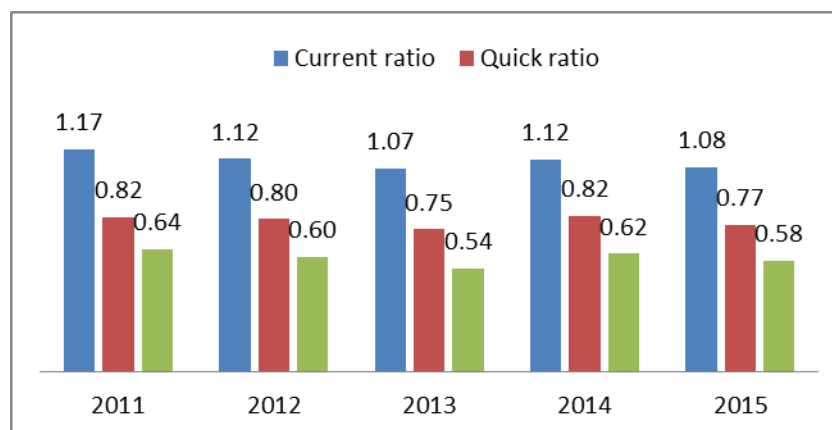


Figure 2. Liquidity Analysis of Amazon (2011-2015)

Table 2. The Ratios of Capital and Liabilities (2011-2015)

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------------------|-------|-------|-------|-------|-------|
| Gearing ratio | 25.28 | 39.56 | 43.27 | 59.34 | 57.57 |
| Tnterest coverage | 13.26 | 7.35 | 5.28 | 0.85 | 4.86 |
| Leverage | 3.26 | 3.97 | 4.12 | 5.07 | 4.89 |
| Compound leverage factor | 3.50 | 4.51 | 4.90 | 11.06 | 5.89 |

As for Capital and liabilities, the gearing ratio (*Table 3*) increased from 25.28% in 2011 to 59.34% in 2014, stabilizing in 2015 (Phx.corporate-ir.net, 2016). This rise is linked to increased bank loans for acquisitions and long-term debt. The interest coverage ratio (*Graph 3*) improved significantly from 0.85 in 2014 to 4.86 in 2015, reflecting increased profits.

4.2 Market Analysis

Amazon's market strategies have been characterized by several key approaches. Firstly, its product strategy, which includes a diverse range of products, has been pivotal in driving revenue growth (Perez, 2016). Secondly, its pricing strategy, which is oriented towards attracting customers, has played a significant role in increasing market share (Perez, 2016). Thirdly, Amazon's distribution strategy, facilitated by a network of over 100 distribution centers, has optimized delivery efficiency (Streitfeld, 2016). Finally, the company's promotion strategy, which includes various tactics such as bundling sales and special offers, has been instrumental in driving sales growth (Perez, 2016). Collectively, these strategies have enabled Amazon to maintain its competitive edge and expand its market reach.

Amazon operates in a highly competitive global market, offering a diverse range of products and services including online retail, advertising, and cloud computing. The company's product strategy is centered around Prime memberships, Marketplace, and Amazon Web Services (AWS), all of which have contributed significantly to its revenue growth. For instance, Prime membership experienced a 51% growth in 2015 (Phx.corporate-ir.net, 2016), enhancing customer loyalty through exclusive benefits.

In terms of pricing strategy, Amazon adopts a customer-oriented approach by providing competitive prices and frequently adjusting them to attract more customers. For example, Prime membership, priced at \$99 per year, offers free two-day shipping among other benefits. Amazon's place strategy is supported by an extensive global network of over 100 fulfillment centers strategically located in high-population areas to ensure efficient delivery services worldwide.

Furthermore, Amazon employs various promotional tactics such as product bundling and special deals to drive sales. Its annual Prime Day event has emerged as a significant sales driver, even surpassing traditional shopping events like Black Friday in terms of revenue. These strategies collectively reinforce Amazon's competitive position and enable it to maintain a strong presence in the global market.

4.3 Strategic Analysis

Amazon's strategic initiatives have been crucial in maintaining its competitive edge in the e-commerce and cloud computing sectors. This section explores the company's strengths, weaknesses, opportunities, and threats (SWOT analysis), along with a discussion of its core competencies and strategic objectives. Amazon's strategic initiatives have been pivotal in sustaining its competitive advantage in the e-commerce and cloud computing industries. The company's strengths lie in its diverse product range, customer-oriented pricing strategies, extensive global network of fulfillment centers, and innovative promotional tactics. However, Amazon faces weaknesses such as potential overreliance on the online retail sector and regulatory challenges in various markets. Despite these challenges, Amazon has identified opportunities for growth, including the expansion of its Prime membership program, further penetration into emerging markets, and continued innovation in its product and service offerings. The company also faces threats such as increasing competition, cyber-security risks, and regulatory scrutiny. Amazon's core competencies include its strong brand image, technological innovation, and customer-centric approach. The company's strategic objectives focus on further expanding its market reach, enhancing customer loyalty, and driving innovation in its operations. Through these strategic initiatives, Amazon aims to maintain its position as a leader in the e-commerce and cloud computing industries.

4.4 Risk Analysis

Risk analysis is a critical aspect of Amazon's strategic planning to maintain its market position and ensure sustainable growth (Streitfeld, 2016). The company faces several key risks across different areas:

In terms of Operational Risks, Amazon's vast and complex supply chain is vulnerable to disruptions from natural disasters, geopolitical tensions, and logistical challenges. To mitigate these risks, Amazon invests heavily in advanced logistics technologies such as robotics and AI. The company also maintains a diversified network of suppliers and distribution centers to ensure continuity of operations.

Considering Financial Risks, fluctuations in currency exchange rates, interest rates, and economic conditions can impact Amazon's financial performance. To manage these risks, Amazon employs hedging strategies and maintains a diversified revenue stream. Additionally, the company closely monitors and adjusts pricing strategies to mitigate the impact of economic fluctuations.

In Regulatory and Legal Risks, Amazon as a global company, must comply with a wide range of regulations across different markets. Changes in tax laws, data protection regulations, and trade policies can pose significant risks. Amazon addresses these risks by proactively engaging with regulatory bodies and investing in compliance programs to ensure adherence to relevant laws and regulations.

As for Competitive Risks, The e-commerce and cloud computing industries are highly competitive, with new entrants and technological advancements constantly emerging. To stay ahead of the competition, Amazon invests heavily in research and development to innovate its product and service offerings. The company also focuses on enhancing customer experience and building strong customer

relationships to maintain its competitive edge.

In terms of Cybersecurity risk, given the vast amount of data handled by Amazon, cybersecurity is a major concern. The company employs robust security measures, including encryption, multi-factor authentication, and regular security audits, to protect customer data and maintain trust.

In conclusion, Amazon's risk management strategies are integral to its overall business strategy, enabling the company to navigate various challenges and maintain its position as a leader in the e-commerce and cloud computing industries.

5. Conclusion

Amazon has effectively utilized its strategic approach to secure a robust market position and achieve consistent sales growth. The results indicate Amazon's success in recent years but also highlight challenges. Areas for improvement include profitability and operational efficiency. The findings are consistent with previous research on Amazon's strategies and performance, emphasizing the importance of customer centrality and innovation. While strategic investments in Amazon Web Services (AWS) and logistics infrastructure have significantly contributed to its performance, cost management remains a critical focus area. The results contribute to the understanding of effective business strategies in the digital age and provide insights for businesses seeking to enhance their competitiveness.

Future research could delve deeper into strategies to enhance Amazon's financial performance particularly in terms of increasing net profit margins and optimizing operational efficiency (Calantone et al., 1995). Additionally, exploring the impact of emerging technologies, such as AI and blockchain, along with evolving market trends, like the rise of mobile commerce and sustainability initiatives, could provide valuable insights for Amazon's long-term sustainability and growth. What's more, future research could explore qualitative factors such as customer satisfaction and brand perception to provide a more comprehensive analysis of Amazon's strategies and performance.

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