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AMAZON GO: VENTURING INTO TRADITIONAL RETAIL[1]

Wiboon Kittilaksanawong and Aurélia Karp wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

Amazon.com, Inc. (Amazon), one of the largest global online retailers, decided to enter the offline retail industry in December 2016 by launching its first Amazon Go store in Seattle, offering a technologically innovative way of shopping that allowed customers to make purchases without a cashier.[2] The launch was the first time that Amazon really entered the traditional retail industry. Earlier, in May 2016, the company had entered food, diaper, and housekeeping product manufacturing with its Amazon Elements brand.[3] Nevertheless, these products were only available online for American Prime Members. Founded in 1994 as an online bookstore, the company had become an e-commerce giant, leading digital sales of books and electronic products. It revolutionized the way consumers purchased products, while also becoming a trusted source of product information for potential buyers. However, the company was not profitable until 2001, while it was still experiencing some financial difficulties.[4] As of the third quarter of 2016, it was the fourth most valuable public company in the United States.[5] In 2015, it surpassed Wal-Mart Stores, Inc. (Walmart) as the most valuable online retail company in the United States.

Could Amazon reproduce its online success in the traditional offline retail segment? Could its current competitive advantages be replicated in offline retailing? Did this diversification make sense, considering Amazon's existing key resources and capabilities, the presence of established traditional retailers like Walmart, and the market trend that was increasingly moving toward online stores?

HISTORY

The Beginnings: 1994–1997

On July 5, 1994, Jeff Bezos, a 30-year-old engineer graduating from Princeton University, left his job as vice-president at D.E. Shaw & Co., a global investment firm based in New York, to create an online bookstore based in Seattle. He saw the future of selling products online and thus first sold books, videos, computer hardware and software, and compact discs. He chose to sell books because of the high worldwide demand, low price per piece, and high number of titles. His aim was to provide more varieties of books online than were available in a physical store. Amazon's main competitors were Barnes & Noble Booksellers Inc., the largest retail bookseller, and other local booksellers in the United States. The company was named Amazon.com in the year after it was created. Through a partnership with Ingram Book Group LLC, Amazon could access books at wholesale prices and sell them online at cheaper prices than physical bookstores. Within its first two months, Amazon's online sales covered more than 45 countries with sales revenue of US$20,000[6] per week. In June 1997, it went public and entered the Nasdaq stock exchange at an initial price of $18 per share, raising $54 million.

Global Expansion and Laborious Financial Results: 1998–2004

In 1998, Amazon began to expand internationally, first by entering the United Kingdom and Germany, and then moving to Europe and Asia, including France, Japan, and China. The company included different languages on its websites to serve these international markets. Bezos was not expecting to make any profits during the first four or five years of the business. Shareholders were not satisfied with the company because it was not profitable and not growing fast enough. However, this business model, with slow but efficient growth, saved Amazon from suffering too much from the 2001 dot-com bubble, and the company realized its first profits in 2001. Nevertheless, its profit was only $5 million from revenues of over $1 billion. Since 2001, the company had significantly diversified its products, from books to computers, electronics, clothes, and beauty products.

Diversification, Early Steps in the Service Industry, and Own-Brand Products: 2005–2010

Amazon continued to extend its services through AmazonFresh, a grocery service, and Amazon Music, an online music store. The company increased its product offerings through the Fulfilment by Amazon program, where products were stored in Amazon's fulfilment centres and then quickly picked, packed, and shipped to customers. It also created Amazon Prime to provide a two-day shipping service in the United States for only $79 a year. It launched Amazon Web Services Inc., which offered inexpensive, reliable, and scalable cloud computing services, including Amazon Mechanical Turk, a crowdsourcing Internet marketplace that enabled individuals and businesses to coordinate the use of human intelligence. This period also marked the beginning of Amazon's own-brand products, including the 2007 launch of the Amazon Kindle, one of the very first e-books readers, three years before the launch of Apple Inc's iBooks.

Innovating and Diversifying at a Faster Pace: 2011–2017

The company kept innovating to improve its products and services. It launched Amazon Locker, a parcel delivery service that allowed buyers to pick up purchases at secure, self-service kiosks, and Amazon Prime Air, a cargo airline and drone-based delivery system. In February 2017, the company announced that it would invest $1.5 billion to build an air cargo hub to support the increasing size of its fleet.[7] Amazon also entered new segments with its Kindle Fire and Fire HD, which competed with Apple's iPad.

Amazon acquired several companies, including GoodReads, an online social networking site for sharing books and reviews, and LoveFilm, a DVD-by-mail and streaming video-on-demand provider that competed with Netflix in Europe. It acquired Kiva Systems to develop robots that efficiently moved products in warehouses, thereby shortening delivery times.

The company launched Amazon Video Direct to compete with YouTube,[8] and it also developed and operated Amazon Video, an Internet video-on-demand service where customers could buy, rent, and instantly watch digital movies and TV shows. Amazon opened its first physical bookstore, Amazon Books, in Seattle, selling products at the same prices as those available in the online stores. These strategic moves allowed Amazon to become a global online retail giant. By 2015, its market capitalization surpassed that of Walmart.

AMAZON'S DEVELOPMENT

Headquartered in Seattle, Amazon was one of the big four global digital companies: Google, Apple Inc., Facebook Inc., and Amazon. It had worldwide operations, with websites serving markets in 14 countries in North America, Europe, and Asia, and shipping services in 75 countries.[9] Its business was expanding rapidly. The number of full-time and part-time Amazon employees increased 47 per cent in one year to reach 268,900 in 2016.[10] This was 23 times more employees than its online competitor EBay and twice as many as Apple, but it was less than 12 per cent of the employees of its offline competitor Walmart. Amazon announced a plan to hire 100,000 full-time employees in the United States from January 2017 to mid-2018, potentially becoming one of the largest technology employers in the country.[11]

Amazon offered a wide range of products on its website, including books, apparel, and even food. As of February 2017, Amazon.com had 48 categories of products—both new and used—that were created and sold both by Amazon itself and by other companies. Most products were in the digital and multimedia sectors. The company had diversified a lot over the years but mainly within online businesses.

The company's revenues from online retail sales largely surpassed those of its competitors: in 2015, its online retail sales were 5.5 times greater than those of Walmart, making it the leader in the online retail market[12] (see Exhibit 1). Amazon made $71.84 billion in online retail sales between November 2014 and November 2015. This was more than the combined online sales of Apple, Walmart, Sears, Roebuck & company, The Gap Inc., Costco Wholesale Coporation, Target Corporation, The Kohl's Corporation, Best Buy Co., and The Home Depot Inc.[13] In the second quarter of 2016, Amazon hit a record profit for the third straight quarter—$857 million ($1.78 per share) on revenue of $30.4 billion.[14] This record far surpassed analysts' estimates of profits per share of $1.11 and revenues of $29.5 billion. In 2016, its online retail sales accounted for half of all online retail sales in the United States.[15] According to Amazon's chief financial officer, Brian Olsavsky, these positive financial figures were a result of "working very hard on efficiency" and "benefits of operating at scale."[16]

For years, as Amazon's online retail sales and profits increased continually, the company kept on investing in research and development (R&D) to improve its offers and to develop new market sectors. In 2016, Amazon decided to enter food and consumable goods manufacturing through Amazon Elements, available only online for American Prime Members, and offline retailing through Amazon Go in Seattle, the first brick-and-mortar convenience food store that employed mobile e-commerce, machine learning, and computer vision to allow customers to make purchases without a cashier.[17]

However, Amazon's performance in the third quarter of 2016, especially in terms of profits, was lower than expected, and this caused its stock price to decrease by 7 per cent. While its revenues were as expected, at $32.7 billion, its profits were $252 million, which was much lower than in the second quarter.[18] Earnings per share were only $0.52—below the estimated $0.78. Still, as of the third quarter of 2016, Amazon was the fourth most valuable public company in the United States.

This poorer performance resulted largely from increased investments in improving existing offers and developing new offers. Such investments were expected to increase as Amazon entered offline retail segments, which required at least buying physical stores. As Olsavsky said, "We are in a period of advancing up our investments in the second half of 2016, even more so than in prior years."[19] In May 2016,