

## AMAZON GOES GLOBAL 2020<sup>1</sup>

*Jing Li and Yong Li 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.*

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Amazon.com, Inc. (Amazon) evolved from a small Internet bookstore in 1995 to one of the largest online retailers on the planet. With a brand equity of US\$220 billion,<sup>2</sup> Amazon was the most-valued brand in 2019, overtaking the likes of Apple and Google.<sup>3</sup> Known as the company with the widest selection globally, it expanded its offerings from books to groceries, apparel, media content, e-book readers (the Kindle), cloud computing, digital advertising, and a whole range of e-commerce product categories. Amazon's revenue increased from \$511,000 in 1995 to more than \$280.5 billion in 2019 (see Exhibit 1).

Much of the company's early success was owed to its direct-to-consumer online model. Online selling offered customers large selection and convenience. Amazon kept its inventory to low quantities for infrequently ordered products, incorporated third-party sellers into its inventory management, and owned its smart logistical system, which reduced the inventory risk of typical brick-and-mortar companies.<sup>4</sup> This business model enabled the company to receive payment from customers before paying the suppliers for goods, which helped Amazon create a negative operating cash flow cycle.<sup>5</sup>

In 1999, Time magazine recognized the company's success in popularizing online shopping and named Jeff Bezos, Amazon's founder and chief executive officer (CEO), "Person of the Year."<sup>6</sup> Bezos believed in a long-term orientation in business development:

If you're long-term oriented, customer interests and shareholder interests are aligned. In the short term, that's not always the case. We have other stakeholders, too—our employees, our vendors, etc. We take it as an article of faith that if we put customers first, other stakeholders will also benefit, as long as they are willing to take the long-term view . . . and a long-term approach is essential for invention, because you're going to have a lot of failures along the way.<sup>7</sup>

As Amazon kept looking for ways to innovate in its business development, Bezos wrote to his shareholders in 2018:

Amazon today remains a small player in global retail. We represent a low single-digit percentage of the retail market, and there are much larger retailers in every country where we operate. And that's largely because nearly 90 per cent of retail remains offline, in brick-and-mortar stores. For many years, we considered how we might serve customers in physical stores, but felt we needed

first to invent something that would really delight customers in that environment. With Amazon Go [a convenience store with no checkout], we had a clear vision. Get rid of the worst thing about physical retail: checkout lines. No one likes to wait in line. Instead, we imagined a store where you could walk in, pick up what you wanted, and leave.<sup>8</sup>

He also addressed the core philosophy behind the company's success by giving the example of how Amazon Web Services (AWS) was brought into the company's portfolio of offerings:

Much of what we build at AWS is based on listening to customers. It's critical to ask customers what they want, listen carefully to their answers, and figure out a plan to provide it thoughtfully and quickly (speed matters in business!). No business could thrive without that kind of customer obsession. But it's also not enough. The biggest needle movers will be things that customers don't know to ask for. We must invent on their behalf. We have to tap into our own inner imagination about what's possible. AWS itself—as a whole—is an example. No one asked for AWS. No one. Turns out the world was in fact ready and hungry for an offering like AWS but didn't know it. We had a hunch, followed our curiosity, took the necessary financial risks, and began building—reworking, experimenting, and iterating countless times as we proceeded.<sup>9</sup>

Amazon's international expansion was another key dimension of its growth. Its first foreign entry was into the United Kingdom in 1998. By early 2020, Amazon had significant operating subsidiaries in more than 14 countries: United Kingdom, Germany, France, Japan, Canada, Italy, Spain, India, Brazil, Mexico, Australia, Singapore, Turkey, and the United Arab Emirates (UAE).<sup>10</sup> Subsidiaries in some countries, such as the United Kingdom and Japan, performed better than subsidiaries in other countries, such as China, in which Amazon no longer had major operations by 2019, and Brazil.<sup>11</sup>

With the eventful two decades of its operations, one could not stop but wonder: What would be Amazon's next step in its international expansion? Would the company focus on growing in existing markets or pursuing new market opportunities? What lessons did it learn from its journey so far? In addition, how would Amazon deal with the ramifications of unexpected global events such as the outbreak of the novel coronavirus that caused COVID-19, which started late in 2019?

## THE ONLINE RETAILING INDUSTRY

The online retailing industry grew rapidly as Internet use became more prevalent and consumers became more familiar with the idea of online shopping. With the advent of PayPal, secure Internet payment systems emerged in the marketplace and online purchasing was accepted as a safe and convenient method of shopping.<sup>12</sup> In 2018, there were 258 million digital shoppers in the United States. The online retailing industry outperformed most brick-and-mortar retail stores in the United States<sup>13</sup> and was expected to grow quickly (see Exhibit 2).

In 2019, the top five e-commerce companies worldwide were Alibaba Group Holding Ltd. (Alibaba) with 16.2 per cent of the e-commerce market, Amazon with 15.1 per cent, JD.com Inc. (JD) with 10.8 per cent, eBay Inc. with 3.5 per cent, and Walmart Inc. (Walmart) with 2.2 per cent (see Exhibits 3 and 4). Retail e-commerce sales globally increased from \$1.3 trillion to \$2.3 trillion from 2014 to 2017 and was projected to reach \$4.8 trillion by 2021.<sup>14</sup> E-commerce sales were 10.2 per cent of global retail sales in 2017, and were projected to rise to 17.7 per cent by 2021. In 2019, Amazon had 25.7 per cent of non-store-based retail sales in the United States, with all its nearest competitors having a market share below 10 per cent each.<sup>15</sup>

The major players' market shares increased as they expanded product mix to reach a wider customer base. For example, in addition to direct online merchandising, Amazon started a third-party seller marketplace. When merchants sold to consumers through the Amazon website, Amazon received a commission on the products and services sold. The gross margin on these items was thinner than that of direct sales by Amazon. However, this model not only created a consistent shopping experience for customers but also dramatically increased the number of products available on Amazon.<sup>16</sup> According to Statista reports, the Marketplace contributed 70.7 per cent of Amazon's total sales in 2019.<sup>17</sup>

Amazon faced an increasingly competitive environment. As online retailing was growing, the company competed for market share against traditional retailers that had long-secured relationships with important suppliers. Further, brick-and-mortar retailers such as Walmart had established a strong online presence of their own over the preceding decade, posing a significant threat to the online retailers.<sup>18</sup>

### AMAZON'S PORTFOLIO OF PRODUCTS AND SERVICES

Amazon's products were categorized into retail goods, consumer electronics, digital content, and AWS. As reported by the company in 2019, its revenue composition included six components: online stores (50 per cent of revenue), third-party seller services (19 per cent), AWS (12 per cent), physical stores (6 per cent), subscription services (7 per cent), and others (6 per cent).<sup>19</sup> In 2019, Amazon's store directory included a variety of offerings such as books and audible; video games and Twitch Prime (a subscription service for gamers); music, movies, and TV shows; electronics, computers, and office; home, garden, pets, and tools; groceries and the Whole Foods market; health and beauty; toys; clothing, shoes, and jewellery; sports and outdoors; automotive and industrial.

The products could be purchased in highly competitive global markets served by many companies. According to 2018 data, Amazon's retail rivals included Walmart, Alibaba, and JD, among others.<sup>20</sup> While Walmart's prices were cheaper, the convenience of shopping online, along with a better stock of items, kept Amazon's sales growth higher.<sup>21</sup> Amazon acquired Whole Foods in 2017, and by 2018, it had become the fifth-largest seller of groceries in the United States, with 3.7 per cent market share of a \$695 billion revenue-generating industry.<sup>22</sup>

The core item in the consumer electronics category was the Amazon Kindle, first launched in 2007. The e-book reader allowed customers access to more than one million titles both for lower prices and without the hassle of a bookshelf. While book prices had to take into account printing and distribution costs, e-books were more affordable, with prices usually ranging from \$0.99 to \$9.99.<sup>23</sup> Some of Amazon's competitors for the Kindle were Barnes and Noble's Nook, Rakuten Kobo's Kobo, Sony Reader, Apple iPad, Samsung Galaxy, and Google Nexus. Digital content included initially e-books and MP3 files and then streaming services. E-books formed a multi-billion-dollar category for Amazon and grew quickly.<sup>24</sup> In 2018, Amazon had 89 per cent of overall e-book sales and 42 per cent of book sales in the United States.<sup>25</sup>

Amazon had a diversified portfolio of services. For \$119 per year (increased from \$79 per year in 2018),<sup>26</sup> Amazon offered an annual membership called Amazon Prime that provided U.S. members with Amazon Prime Video, free two-day shipping on all eligible purchases, and discounted one-day shipping rates. Amazon also offered U.S. members access to Amazon Prime Reading, a Kindle lending library that allowed members to borrow one book per month for free with no due dates. Amazon Prime Video gave customers access to unlimited streaming of television shows and films and access to subscription-based premium channels.<sup>27</sup> Some or most of Amazon Prime's features were also available to subscribers in over 200 countries.<sup>28</sup> Amazon Prime's features were well-received by customers, with Amazon Prime Video gaining