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Seminar Paper on
Strategies to Achieve Market Leadership: The Example of Amazon

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Table of Abbreviations

B	Billion
DBW	Die Betriebswirtschaft
EB	Electronic Business
EC	Electronic Commerce
EM	Electronic Market
FMA	First Mover Advantage
ICT	Information and Communication Technologies
IT	Information Technology
M	Million
unpaged	Document is not a paged media
ZfB	Zeitschrift für Betriebswirtschaftslehre
zbf	Zeitschrift für betriebswirtschaftliche Forschung

As used herein, “Amazon.com” and similar terms include Amazon.com, Inc. and its subsidiaries, unless the context indicates otherwise.

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1 Introduction

In the early 1990s global communication networks and information technology (IT), especially the Internet, have lead to a deconstruction and reconfiguration of traditional value chains¹. In consequence, branch boundaries faded and new business models emerged.² Opportunities to expand into reshaped business segments and to develop innovative products and services in order to attract valuable customers appeared.³ By considering the case of Amazon.com Inc., we will show how dedicated strategies helped to acquire market leadership in these new business environments.⁴

The rest of this paper is organized as follows: In section 2, we will explore value chains and actors in EC. Principles of success are discussed, and based on Porter's Branch Structure Analysis, we will define strategic context factors and carve out value creation potentials in Electronic Markets. In section 3, we will analyze how these theoretically derived principles apply to the case of Amazon.com.

2 Market Leadership as a Strategic Goal in Electronic Commerce

2.1 Value Chains and Actors in EC

Influenced by rapid technological progress, the terms Electronic Business (EB) and Electronic Commerce (EC) have evolved over time to include all aspects of "internetworked technologies".⁵ A canonical definition is still missing. Today, EC is a part of EB.⁶ For this paper we will adopt Wirtz's definition: EB describes the "preparation as well as the partial, respective total support, processing and maintenance of performance exchange processes via electronic networks".⁷ EC focuses on the transaction processes on the distribution side and their support. Throughout this paper, we will use the following

¹ Picot, A., 1996; Zerdick, A. et al., 1999; Picot, A., Reichwald, R., Wigand, R.T., 1998, p. 19 ff.; Weber, R., McLachlan, C., 2000, p. 119

² Schweitzer, M., 2000, p. 42; Mahadevan, B., 2000, p. 55

³ Prahalad, C.K., Hamel, G., 1990, p. 239; Bate, J.D., Johnston Jr., R.E., 2005, p. 12

⁴ Koob, C., 2000, p. 27 f.; Drucker, P.D., 1999

⁵ Ware et al., 1997, p. 29; Whinston, A.B., Stahl, D.O., Choi, S.-Y., 1997, p. 12

⁶ Rebstock, M., 2000, p. 7

⁷ Wirtz, B.W., 2000, p. 33: „Anbahnung sowie die teilweise respektive vollständige Unterstützung, Abwicklung, und Aufrechterhaltung von Leistungsaustauschprozessen mittels elektronischer Netze"

definition adapted from Rebstock, Kalakota/Whinston, and Wamser:⁸ “EC is the electronic, market-mediated buying and selling of information, products, and services via computer networks and their support in all transaction phases”.

The Electronic Market (EM) electronically maps information and communication processes between market players in computer networks.⁹ This process is called mediation and enables the coordination of business interactions between the players in all transaction phases;¹⁰ information phase, negotiation phase and execution phase, form the transaction process (see Exhibit I).¹¹ EMs represent a virtualization of the location where supply and demand meet.¹² Characteristics of electronic markets are: (1) the “anytime and anyplace”-principle, i.e. the ubiquity of market access, which enables trading and selling without spatiotemporal restrictions;¹³ (2) augmented market transparency¹⁴ which results in (3) reduced transaction costs for example through search facilities;¹⁵ and (4) increased speed of transaction processes.¹⁶

		DEMAND SIDE		
		Consumer	Business	Administration
SUPPLY SIDE	Consumer	Consumer-to-Consumer g.e. small advertisements on the Internet	Consumer-to-Business g.e. job market with ads from job-seekers	Consumer-to-Administration g.e. tax handling for private individuals (income tax etc.)
	Business	Business-to-Consumer g.e. Electronic Retailing	Business-to-Business g.e. company orders via EDI from suppliers	Business-to-Administration g.e. tax handling for enterprises
	Administr.	Administration-to-Consumer g.e. handling of support services (social welfare, unemployment aid)	Administration-to-Business g.e. procurement of public administrations via Internet	Administration-to-Administration g.e. transactions between inter-/national public administrations

Table 1: The transaction relationships in Electronic Commerce¹⁷

⁸ Rebstock, M., 2000, p. 6; Kalakota, R., Whinston, A.B., 1996, p. 1; Wamser, C., 2001, p. 11

⁹ Bakos, Y.J., 1991a, p. 31 ff.

¹⁰ Bakos, Y.J., 1991b, p. 296

¹¹ Reichwald, R., 1999, p. 284; Schmid, B., 1993, p. 468

¹² Picot, A., Reichwald, R., Wigand, R.T., 1998, p. 318; Bakos, Y.J., 1998, p. 13 f.

¹³ Timmers, P., 1999, p. 11 f.; Schmid, B., 1993, p. 468

¹⁴ Wamser, C., 2000, p. 20

¹⁵ Barryman et al., 1998, p. 154 f.; Bakos, Y.J., 1997, p. 1684

¹⁶ Wamser, C., 2000, *ibid.*

¹⁷ Hermanns, A., Sauter, M., 1999b, p. 23

The transactions in Electronic Markets can be classified with regard to the involved actors. The market players take the role of either the customer or the merchant during the transaction process¹⁸: for the demand-side as well as for the supply side, one distinguishes Consumers (abbreviated by C), Businesses (B) and governmental agencies or Administrations (A), resulting in the nine-field matrix presented in Table 1.

2.2 Principles for Success in Electronic Commerce

Similarly to the marketing principles identified by Bruhn¹⁹, Wamser emphasizes seven prerequisites for successful operation and goal-oriented design in EC:²⁰

- Market Orientation as one of the most important characteristics of modern management.²¹ All activities should target the relevant market. The particularities of electronic markets have to be captured, arising chances and upcoming risks must be assessed.²²
- User Orientation as the maximization of the customers' subjectively perceived utility. Instead of focusing on a technology driven approach, the relevant market's needs should be targeted.²³ Nonetheless, new technologies can serve as a hint how to offer substantial surplus value to customers, for example through automated recommender systems.²⁴ This, in turn can translate into a competitive advantage.
- Systematic Management Processes are required in order to cope with concurrently upcoming business opportunities. A methodical way of proceeding, including planning, monitoring, and controlling of all EC activities, is necessary.²⁵

¹⁸ Merz, M., 2002, p. 22

¹⁹ Bruhn, M., 1997, p. 14 f.

²⁰ Wamser, C., 2001, p. 30 ff.

²¹ Kotler, P., Bliemel, F., 1999, p. 1173; Nieschlag, R., Dichtl, E., Hörschgen, H., 1997, p. 958; Meffert, H., 1998, p. 976 ff.

²² Wamser, C., 2001, p. 31

²³ Wamser, C., Fink, D.H., 1997a, p. 47; Timmers, P., 1999, p. 24

²⁴ Palmer, J., 2002, p. 102 f.; Schafer, J.B., Konstan, J.A., Riedl, J., 2001, p. 1; Resnick, P., Varian, H., 1997, p. 56

²⁵ Wildemann, H., 2000, p. 22; Wamser, C., Fink, D.H., 1997, p. 48; Eggenberger, C., Klein, S., 2000, p. 181 f.

- Innovative Solution Concepts are required in order to cope with changing market conditions and customer expectations, to distinguish oneself from competitors, and to systematically source innovations.²⁶
- Integration of Activities on the operational and technological level is essential, because isolated, group-constrained solutions cannot tap the full synergy and performance potentials that can be achieved with integrated solutions.²⁷
- Creation of Economic Values must be the guiding principle of all technological activities. Technology is not an end in itself; the profitability of each investment has to be assessed by a cost-benefit analysis.²⁸

These principles determine the fundamental orientation of EC. Thus, successful EC-Management is the systematic planning, monitoring and controlling of the innovative, market and utility oriented implementation of ICT; it assures value orientation and goal oriented integration of all activities to form a holistic and operational effective solution.²⁹ EC-Management includes a thorough analysis of the branch attractiveness, and the enterprise's competitive strengths as presented in the next two sections.

2.3 Porter's Branch Structure Analysis applied to EC Markets

Branch attractiveness and patterns of competition are mainly determined by branch structures.³⁰ Porter distinguishes five structural features ("Five Forces") that act as driving forces of branch competition (see Figure 1). Based on this analysis, the company can develop competitive strategies to realize sustained competitive advantages. Porter explicitly mentions the Internet as a new technology that can impact on all five forces.³¹

Even though Porter argues that **suppliers** can have increased bargaining power due to information asymmetries, higher specialization than the branch, threat of forward integration, and switching costs on the buyer side, their po-

²⁶ Wildemann, H., 2000, p. 37

²⁷ Gascoyne, R.J., Ozcubukcu, K., 1997, p. 114; Kalakota, R., Whinston, A.B., 1996, p. 403; Sauter, M., 1999, p.115

²⁸ Wamser, C., Fink, D.H., 1997b, p. 218; Hermanns, A., 1999, p. 98; Picot, A., 1985, p. 383

²⁹ Wamser, C., 2001, p. 34

³⁰ Porter, M.E., 1980; Porter, M.E., 1985

³¹ Porter, M.E., 1999a, p. 12; Porter, M.E., 1999b, p. 233

sition is weakened in context of EC.³² Increased market transparency reduces buyer search and information costs in an extended procurement market, equalizing information asymmetries.³³ Innovative trading mechanisms allow buyers to strengthen their bargaining position, for example by pooling their sourcing activities or by reverse auctioning.³⁴ Switching costs are decreasing mainly due to higher market transparency and open standards in ICT; lock-in effects caused by proprietary standards are diminishing.³⁵

Buyers can profit from decreased switching costs, and are better informed on a more transparent market where competitors are “only one click away”.³⁶ This effect becomes stronger as the products become increasingly interchangeable.³⁷

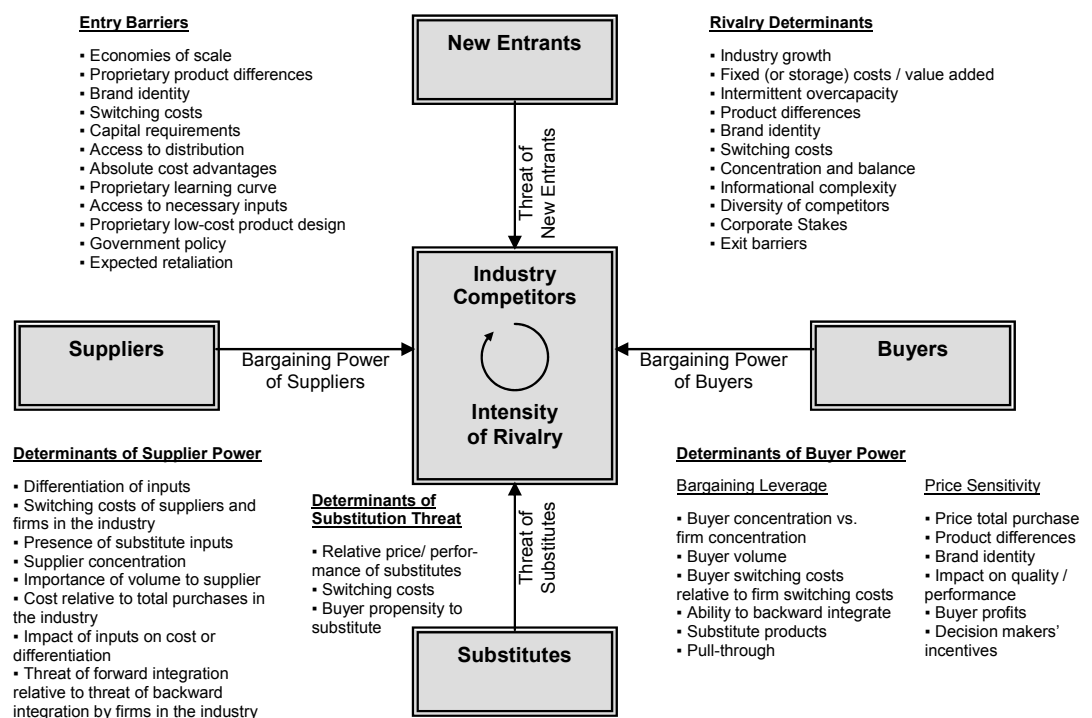


Figure 1: Porter's Five Forces Model (including the major determinant of each force)³⁸

³² Porter, M.E., 1999a, p. 61 ff.

³³ Evans, P.B., Wurster, T.S., 1998, p. 62; Haertsch, P., 2000, p. 126 f.

³⁴ Kaplan, S., Sawhney, M., 2000, p. 101

³⁵ Downes, L., Mui, C., 1998, p. 126 f.; Shapiro, C., Varian, H.R., 1998, p. 126 f.

³⁶ Clarke, K., 2001, p. 160

³⁷ Porter, M.E., 1999a, p. 58 ff

³⁸ Porter, M.E., 1985, p. 6

The threat of **new competitors** entering the market, favoured by lower market entry barriers, lies in an expanded supply, leading to falling prices and shrinking margins.³⁹ EC enterprises face international competition from new branches, because branch barriers dissolve under the influence of technological innovations, industries converge and national frontiers become insignificant in Electronic Markets.⁴⁰ Market entry barriers are lower as the distribution channels are unlimited; asset bindings and initial investment costs are reduced.⁴¹ In retailing, optimized transaction processes and powerful logistics systems allow to operate merely without stocks, as customers orders are directly forwarded to suppliers.⁴²

However, new technologies can be used to build new market entry barriers: first, differentiation allows creating customer loyalty; second, especially the pioneer can attract a critical mass, which stimulates demand through a multiplication effect.⁴³ This particularly holds under the influence of network effects.⁴⁴ The knowledge of preferences and buying patterns of the target groups is crucial, as it represents a prerequisite for individualized customer offerings as a base for customer loyalty.⁴⁵ These strategies lie beyond the traditional entry barriers discussed in industrial organization theory.⁴⁶

In principle, all companies in one branch compete with those in other branches that offer potential **substitutes** whose price-performance ratios determine the level of competition.⁴⁷ EC has lead to disintermediation and reintermediation, where traditional intermediaries disappear and new ones develop, especially at the so called “point of frictions” in the value chains.⁴⁸ In the case of electronic retailing, specialized EC companies have a competitive advantage over less experienced traditional retailers expanding into EC;⁴⁹ technological innovations lead to increased substitution pressure towards former technologies.⁵⁰

³⁹ Porter, M.E., 1999a, p. 37 ff

⁴⁰ Schad, H., 2000, p. 112; Prahalad, C.H., Hamel, G., 1994, p. 10

⁴¹ Hoffman, D.L., Novak, T.P., 1997, p. 50

⁴² Wamser, C., 2001, p. 53

⁴³ Link, J., 2000, p. 12

⁴⁴ Clement, M., Litfin, T., Peters, K., 1999, p. 83; Schoder, D., 1995, p. 18 f.

⁴⁵ Haertsch, P., 2000, p. 125; See also section 3.3

⁴⁶ Christensen, C.M., 1997, p. 210

⁴⁷ Porter, M.E., 1999a, p. 56 ff.

⁴⁸ Schad, H., 2000, p. 102

⁴⁹ Albers, S., Peters, K., 2000, p. 188 ff.; Albers, S., Peters, K., 1997, p. 71

⁵⁰ Bettis, R.A., Hitt, M.A., 1995, p. 13

Rivalry among competitors increases in EC due to higher market transparency, decreasing switching costs, and innovative trading mechanisms; lowered market entry barriers give the customers higher bargaining power and attract new competitors.⁵¹ In stagnating markets rivalry among competitors is evident;⁵² but also in the rapidly growing EC market, competition is high as many small and flexible firms penetrate the market with low costs.⁵³ The phenomenon “Co-opetition”, describing a simultaneously competitive and cooperative relationship among the market players,⁵⁴ does not reduce the level of competition.⁵⁵

One cannot deny that Porter’s Branch Structure Analysis had a lasting impact on both theory and practice of strategic planning. However, literature argues that Porter’s Structure Analysis has only reduced explanatory potential in the context of high branch dynamics:⁵⁶ “The structural analysis of industries, instead of being a specialized planning tool for forecasting evolution over considerable periods, becomes, instead, useful as a capability to quickly understand the continuously evolving nature of the industry.”⁵⁷ Some authors have proposed extensions to Porter’s model. Downes and Mui introduce three additional competitive forces: digitization, globalization, and deregulation.⁵⁸ Haertsch adds a group of “complementers” (i.e. enterprises supplying complementary goods) to form the sixth competitive force of the “Digital Economy”.⁵⁹

In order to cope with the challenges arising from the dynamics in EC, companies must develop and deploy adequate competitive strategies, combining differentiation (or preference) and cost-leadership strategies to implement outpacing strategies.

⁵¹ Becker, J., 1998, p. 371; Hermanns, A., Sauter, M., 1999a, p. 5

⁵² Neumann, J., Morgenstern, O., 1961

⁵³ Schad, H., 2000, p. 113

⁵⁴ Brandenburger, A.M., Nalebuff, B.J., 1996, p. 18; Preiss, K., Goldman, S.L., Nagel, R.N., 1996

⁵⁵ Wamser, C., 2001, p. 59

⁵⁶ De Kare-Silver, M., 1998, p. 46; Feuer, R., Chaharbaghi, K., 1995, p. 20; Moore, J., 1996, p. 142

⁵⁷ Bettis, R.A., Hitt, M.A., 1995, p. 12 f.

⁵⁸ Downes, L., Mui, C., 1998, p. 64 ff.

⁵⁹ Haertsch, P., 2000, p. 131 f.; Wildemann, H., 2000, p. 33

2.4 Context Factors and Value Creation Potentials in EC Markets

The tapping of the economic potentials is influenced by exogenous competitive context factors. Link and Hildebrand⁶⁰ have developed a generic assessment framework for economic trends that can be applied to EC (Figure 2).⁶¹

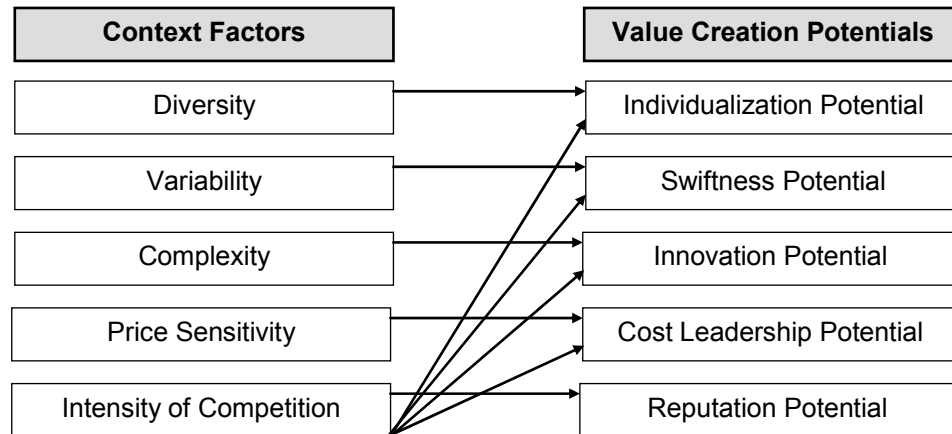


Figure 2: Context Factors and Value Creation Potentials in Electronic Commerce⁶²

Diversity describes the heterogeneousness of the company's environment, especially with regard to actual and potential customer needs and preferences. Variability describes the swiftness and frequency of changes of the company's relevant environments.⁶³ Complexity describes the versatility of changes and their interdependencies on multiple layers.⁶⁴ Price sensitivity describes the price's impact on the customer's purchasing behaviour. Intensity of competition describes the degree of rivalry among competitors in a given branch. This conceptual framework has been empirically verified.⁶⁵

All competitive strategies aiming at realizing a sustained Comparative Competitive Advantage⁶⁶, pivot around five interdependent potentials, corresponding to the five context factors: (1) the individualization potential derives from the user's information and guidance needs in the context of complex decision finding processes;⁶⁷ the tailor-made, personalized satisfaction of customer desires (also called "One-to-One Marketing") requires continuous

⁶⁰ Link, J., Hildebrand, V., 1993, p. 12 ff.

⁶¹ Wamser, C., 2001, p. 72

⁶² Wamser, C., 2001, p. 72

⁶³ Laux, H., Liermann, F., 1997, p. 248 ff.

⁶⁴ Bleicher, K., 2004, p. 13

⁶⁵ Ho, J., 1997, unpaget; Reichheld, F.F., Scheffer, P., 2000, p. 107

⁶⁶ Backhaus, K., 2003, 9 ff.

⁶⁷ Link, J., Tiedtke, D., 2000, p. 110

customer contact and efficient data mining techniques.⁶⁸ Companies seek to establish learning relationships with their customers;⁶⁹ (2) the swiftness potential in time competition allows companies to realize “economies of speed”,⁷⁰ whose components are pioneer advantages, and immediate, rapid customer satisfaction.⁷¹ Weiber and Kollmann identify a “Speed-Leader-Strategy” aiming at realizing a time lead compared to competitors.⁷² On the operational level, the swiftness potential lies in the acceleration of transaction processes through efficient, integrated operations and fulfilment systems;⁷³ (3) the innovation potential is an independent dimension in competition, verified empirically, and finds expression in technological and market leadership.⁷⁴ Innovations are especially important when other differentiation potentials are exhausted and competition is intense. However, a lasting comparative innovative advantage is difficult to achieve, due to reduced imitation protection on the highly transparent electronic markets;⁷⁵ (4) the reputation potential can only be established in the long run, as the company has to prove itself as trustworthy.⁷⁶ Particularly in the non-tangible EC, transactions have a high share of experience and trust characteristics.⁷⁷ The customer prefers buying at the company she trusts more;⁷⁸ (5) the cost leadership potential complements the other four differentiation potentials. However, cost leadership is hard to achieve and to defend in EC.⁷⁹

2.5 First Mover Advantage and the Role of the Pioneer

First Mover Advantages (FMAs) are no automatism⁸⁰; they must be mined on the supply and demand side.⁸¹ On the supply side, (1) innovations, protected by patents and copyrights,⁸² enable FMAs through a temporary monopoly; (2) economies of scale allow limit pricing strategies, which set market entry

⁶⁸ Meyer, A., Pfeiffer, M., 2000, p. 293

⁶⁹ Meyer, A., Davidson, J.H., 2001, p. 58; Charlet, J.-C., 1998, p. 1 ff.

⁷⁰ Simon, H., 1989, p. 27, 79 f., 83; Backhaus, K., 2003, p. 16 ff.

⁷¹ Meffert, H., 1998, p. 264

⁷² Weiber, R., Kollmann, T., 2000, p. 58

⁷³ Simon, H., 1989, p. 81

⁷⁴ Albach, H., 1989, p. 1339

⁷⁵ Wildemann, H., 2000, p. 57

⁷⁶ Domizlaff, H., 1982, p. 89; Schade, C., Schott, E., 1993, p. 501

⁷⁷ Shapiro, C., Varian, H.R., 1998, p. 5 f.

⁷⁸ Kaas, K.P., 1990, p. 545 f.; Kaas, K.P., 1992, p. 897

⁷⁹ Haertsch, P., 2000, p. 134

⁸⁰ Kerin, R.A., Varadarajan, R., Peterson, R.A., 1992, p. 42

⁸¹ Golder, P.N., Tellis, G.J., 1993, p. 159 f.; Vidal, M., 1995, p. 45 ff.

⁸² Lieberman, M.B., Montgomery, D.B., 1988, p. 43

barriers as followers would have to operate with negative margins;⁸³ (3) the pioneer has a more advanced position on the experience curve, allowing lower average costs;⁸⁴ (4) pioneers can closely tie in partners into collaboration networks, making it harder for followers to integrate their value chains.⁸⁵ On the demand side, (5) product differentiation creates FMAs as the pioneer occupies niches that thus cannot be exploited by followers;⁸⁶ (6) pioneers can use the period before followers enter the market to achieve a “critical mass” and to set a standard which are stabilized by network effects;⁸⁷ (7) switching costs and lock-in effects lead to forced customer loyalty, even if the follower has an objectively superior selling proposition;⁸⁸ (8) the pioneer can shape user preferences by influencing cognitive and emotional product perception and establish its offer as a reference by which followers will be judged;⁸⁹ (9) the pioneer can establish a strong reputation of trustworthiness, reliability and quality leadership.⁹⁰ Literature states that demand side effects have much higher FMA potential in the context of EC.⁹¹

3 Amazon.com – The Road to Market Leadership

3.1 Company Portrait

Amazon.com Inc., a Fortune 500 company, incorporated in 1994 / Washington and reincorporated in 1996 / Delaware, went online on the WWW in July 1995. Since its IPO in May 1997, Amazon is listed on the Nasdaq National Market. Amazon and its affiliates operate seven retail websites: amazon.com / .co.uk / .de / .co.jp / .fr / .ca, and joyo.com; a9.com and alexa.com, also operated by Amazon since 2004, enable search and navigation, imdb.com, is a movie database.⁹² The company’s stated strategy is to “focus on customer

⁸³ Lambkin, M., 1992, p. 6

⁸⁴ Henderson, B.D., 1974, p. 14 ff.; Vidal, M., 1995, p. 47

⁸⁵ Gemünden, H.G., 2003, p. 16

⁸⁶ Meyer, A., 1996, p. 66

⁸⁷ Mueller, D.C., 1997, p. 832: “the potential demand for a second mover’s product [...] far below that of that of the first mover.”

⁸⁸ Lieberman, M.B., Montgomery, D.B., 1988, p. 46

⁸⁹ Carpenter, G.S., Nakamoto, K., 1989, p. 286 ff.; Alpert, F.H., Kamins. M.A., 1995, p. 34

⁹⁰ Spremann, K., 1988, p. 618 ff

⁹¹ Meyer, A., Specht, M., 2002, p. 263 f.

⁹² Amazon.com, Inc., 2005a, p. 55; Amazon.com, Inc., 2004a, unpagged; Amazon.com, Inc., 2004b, unpagged

experience by offering [their] customers low prices, convenience, and a wide selection of merchandise.”⁹³

Started as a pure online book retailer,⁹⁴ Amazon.com began expanding its product and service offering.⁹⁵ New business models were introduced in 1999,⁹⁶ web hosting and fulfilment service partnerships with traditional retailers and consumer portals followed in 2000.⁹⁷

Despite rapid growth of revenues (up from 15.7M US\$ in 1996 to 6.9B US\$ at the end of 2004)⁹⁸, Amazon generated operating losses (1.4B US\$ net in 2000) and only reached profitability in 2003.⁹⁹ Since 2000, Amazon is the largest Internet retailer,¹⁰⁰ reporting a customer base of more than 27M active accounts by 2002/II (up from 0.34M in 1997/I).¹⁰¹

3.2 Redefining Book Retailing: Amazon vs. Barnes & Noble

When Amazon went online, the book industry was highly fragmented with the largest retailer Barnes & Noble (B&N) only representing 11% of total book sales in the US.¹⁰² B&N operated its stores as superstores (covering 6000m² and stocking up to 175.000 titles)¹⁰³ and mall-based stores (smaller in size and selection), but also offered mail-ordering through catalogue services¹⁰⁴. B&N had a centralized logistics and distribution centre and could thus leverage scale economies in procurement by sourcing books directly from publishers, obtaining higher discounts than other book retailers, and avoiding high mark-ups from wholesalers. Due to centralized stock, books could be shipped to the points of sale within a few days, avoiding delivery delays from publishers.¹⁰⁵ B&N installed an electronic store (management) system, enabling real time information exchange among its stores, the distribution centre

⁹³ Amazon.com, Inc., 2005a, p. 3

⁹⁴ Leschly, S., Roberts, M.J., Sahlman, W.A., 2003, p. 1

⁹⁵ See section 3.3

⁹⁶ Hilliard, U., Horovitz, J., Kumar, N., 2000, p. 8

⁹⁷ Applegate, L.M., 2002b, p. 1

⁹⁸ Amazon.com, Inc., 2001, p. 19

⁹⁹ Amazon.com, Inc., 2005a, p. 25

¹⁰⁰ Hilliard, U., Horovitz, J., Kumar, N., 2000, p. 1

¹⁰¹ Applegate, L.M., 2002b, p. 7; Sahlman, W.A., Katz, L.E., 1999, p. 3

¹⁰² Sahlman, W.A., Katz, L.E., 1999, p. 4

¹⁰³ Hilliard, U., Horovitz, J., Kumar, N., 2000, p. 2; Barnes & Noble, Inc., 1998, p. 13

¹⁰⁴ Ghemawat, P., Baird, B., 2004, p. 5

¹⁰⁵ Ghemawat, P., Baird, B., 2004, p. 5

and wholesalers with access to a 2.5M title database, though not accessible for customers.¹⁰⁶

Amazon redefined traditional book retailing through a radically different approach: online, over the Internet.¹⁰⁷ Traditional book retailing has several drawbacks. The selection of titles is physically limited by available store space. Traditional retailers must invest in inventory, real estate and qualified personnel for each retail location and it is impossible to provide “a customized store for every customer or to provide customized recommendations without significantly increasing selling costs.”¹⁰⁸ Internet retailers have the advantages of centralized inventory management and low occupancy costs. A large and global group of customers can be reached from a single central location, making the business model very scalable. It is possible to track consumer purchasing patterns in order to better anticipate demand and to provide personalized services such as customized store fronts.¹⁰⁹

Amazon offered more than 1M titles in its database, but only carried 2000 of them in its own warehouse. In contrast to B&N, Amazon sourced its books mainly from wholesalers, because Amazon could not stock large shipments from publishers and because deliveries from publishers took weeks to arrive.¹¹⁰ Book wholesalers, in contrast, could ship most orders within a couple of days. Compared to B&N’s centralized stock strategy, Amazon’s just-in-time procurement multiplied inventory turns and reduced working capital (see Exhibit II),¹¹¹ but shrunk gross margins.

Amazon had the advantage of a negative operating cycle: credit card payments were received within a few days of purchase, but vendors were not paid for up to 44 days of sale. In addition, Amazon did not actually carry in inventory many of the products it sold, relying instead on suppliers to provide fast fulfilment and shifting inventory risks to its vendors. Amazon’s typical operating cycle was around -21 days, whereas the typical book retailing operating cycle was around +78 days.¹¹² Thus Amazon generated interest on the

¹⁰⁶ Ghemawat, P., Baird, B., 2004, p. 7

¹⁰⁷ Ghemawat, P., Baird, B., 2004, p. 8; Hof, R.D., 2004, p. 1

¹⁰⁸ Covey, J., 1997, unpagged

¹⁰⁹ Covey, J., 1997, unpagged

¹¹⁰ Ghemawat, P., Baird, B., 2004, p. 9

¹¹¹ Gurley, W.J., 1997, p. 1

¹¹² Burgelman, R.A., Meza, P., 2001, p. 4; Szkutak, T., 2004, p. 15; Mui, C., 2004, p. 3

full sale price (cost of goods and gross margin) for over a month (see Exhibit III).¹¹³

Amazon's business model combined informational elements (virtual storefront) with physical elements (operations). While Amazon highly invested in information technology, with a strong focus on software rather than hardware, its operations were practically limited to packing and shipping at that time.¹¹⁴

Amazon's core value propositions for customers buying books over the Internet were convenience, selection, price, and customer service. Its web store was online 24-7 and offered supplementary services, such as book recommendations and reviews. Amazon had a database with 1.1M books, compared to 175.000 books on site in the largest superstores.¹¹⁵ Customers could use the database search functionality to find even rare and out-of-print titles filtered by different search criteria. Amazon also sought to price competitively by offering discounts equivalent to those offered by large book chains (see Exhibit IV).¹¹⁶ Ease of shopping was provided through a simple checkout procedure.

B&N did not launch its own online business until 1997. By that time, Amazon had a strong leadership position in online book retailing, controlling over 75% of all online book sales.¹¹⁷ Sales had increased by 838% from 15.7M US\$ in 1996 to 147.8M US\$ in 1997 and cumulative customer accounts had grown by 738% from 0.18M to 1.5M during the same period.¹¹⁸

In the following sections we will analyze how Amazon realized the Value Creation Potentials and the First Mover Advantages – as depicted in sections 2.4 and 2.5 – since 1997.

3.3 Realizing the Value Creation Potentials

Amazon claims to be “the Earth's most customer centric company. It means three things: listen, invent and personalize”.¹¹⁹ In order to tap the **Individualization Potential**, Amazon's key value propositions to customers, besides easy-to-use browsing and searching functionalities, include reviews and con-

¹¹³ Sahlman, W.A., Katz, L.E., 1999, p. 22

¹¹⁴ Applegate, L.M., 2002a, p. 4

¹¹⁵ Hilliard, U., Horovitz, J., Kumar, N., 2000, p. 2; Ghemawat, P., Baird, B., 2004, p. 9

¹¹⁶ Barry, D. et al., 1997, p. 1

¹¹⁷ Turban, E. et al., 2000, p. 430

¹¹⁸ Amazon.com, Inc., 1997, p.3

¹¹⁹ Bezos, J.P., 2000b, unpagged

tent services, an online community, recommendations and personalization features. Latter comprise greeting customers by name, instant and personalized recommendations and individual notification services.¹²⁰ Amazon provides content services, synopses, annotations, product reviews and ratings by customers and (external) editorial staff, and interviews with authors and artists; customers can order and select gifts from the gift centre where they find recommendations from Amazon's editors.¹²¹ In late 1999, Amazon implemented its "Wish List" feature, allowing customers to create an online wish list of desired products that others could reference for gift-giving purposes.¹²² Since the beginning, Amazon's website included standard-setting functionalities such as customer accounts including multiple shipping and invoice addresses, diverse payment options, auto-login features and product preferences based on which Amazon delivers thematically matching newsletters. Users are provided shopping carts, and can merge and split orders not yet shipped; past orders are collected in an order history. Stock availability is displayed online for each product, and not yet released items can be pre-ordered to be automatically shipped upon availability: Amazon puts "each customer at the centre of her own universe".¹²³

The CEO Jeffrey P. Bezos summarized Amazon's personalization efforts by stating: "If we have seventeen million customers, we should have seventeen million stores."¹²⁴

Tapping the individualization potential also implies carrying out a differentiation strategy. As theoretically anchored in Ansoff's Strategy Matrix, differentiation is the expansion into new markets with new products (see Exhibit V).¹²⁵ Since 1998, Amazon went global, successively opening the web dependencies amazon.co.uk and amazon.de, through acquisitions in the local markets. They reached market leadership in the new segments in the same year and served over 17 million customers in over 150 countries in 1999.¹²⁶ Until 2005, the Japanese, Canadian and French web sites were launched.¹²⁷

¹²⁰ Amazon.com, Inc., 2001, p. 3

¹²¹ Amazon.com, Inc., 1997, p. 3

¹²² Amazon.com, Inc., 2000a, p. 4

¹²³ Bezos, J.P., 2000b, unpaginated

¹²⁴ Bezos, J.P., 2000b, unpaginated

¹²⁵ Ansoff, A.I., Stewart, J.M., 1967, p. 81

¹²⁶ Amazon.com, Inc., 2000a, p. 1

¹²⁷ Amazon.com, Inc., 2005a, p. 3

In an empirical study evaluating expected and perceived service quality from EC retailers, comparing B&N, Amazon and Bookstore.About.com, Amazon received best average rankings in 20 out of 22 questions, including the aspects Tangibles, Reliability, Responsiveness, Assurance and Empathy.¹²⁸

In 1999, Amazon extended its logistics and fulfilment infrastructure by building automated fulfilment centres, customer service centres, and warehouses that were interfaced with Amazon's EC platform, enabling fast response and delivery times, in order to tap the **Swiftness Potential**.¹²⁹ Orders that could not be filled from the company's inventory were automatically forwarded to Amazon's suppliers. Due to arrangements with distributors, products could be shipped to Amazon's distribution centres within hours.¹³⁰ In addition, Amazon established agreements with outsourcing partners, such as Federal Express, to help manage its logistics and shipping operations.¹³¹ Due to its new fulfilment and customer service infrastructure, Amazon was able to cope with an increasing number of customer orders: "In early December 1999, the company logged peak shipping of roughly 16M US\$ of products in one day, which was more than the company's total sales in 1996. [...] During the 2000 holiday season, Amazon shipped more than 31M items with over 99% accuracy."¹³² The availability of company-owned distribution centres, built to 70-80% overcapacity,¹³³ enabled Amazon to begin sourcing books directly from publishers, resulting in higher margins by avoiding mark-ups from wholesalers.¹³⁴

Amazon avoided time-consuming media clashes,¹³⁵ by cross-functionally integrating web site, consumer service units, payment processing and warehouse operations systems, resulting in a fully integrated EC platform.¹³⁶

Attracted by Amazon's success, new competitors entered the Internet retailing market. EC retailing became intensely competitive and Amazon faced numerous strong competitors,¹³⁷ among them were online vendors as direct

¹²⁸ Sullivan, J.R., Walstrom, K.A., 2001, p. 13

¹²⁹ Leschly, S., Roberts, M.J., Sahlman, W.A., 2003, p. 4 f.; Mahadevan, B., 2000, p. 65

¹³⁰ Amazon.com, Inc., 2000a, p. 6

¹³¹ Amazon.com, Inc., 2001, p. 2

¹³² Applegate, L.M., 2002a, p. 9 f.; Amazon.com, Inc. 2000b, unpagged

¹³³ Rowen, M., Prudential Securities, 1999, p. 3; Applegate, L.M., Collura, M., 2000, p. 12

¹³⁴ Applegate, L.M., 2002a, p. 10; Mahadevan, B., 2000, p. 63

¹³⁵ Wamser, C., 2001, p. 80

¹³⁶ Leschly, S., Roberts, M.J., Sahlman, W.A., 2003, p. 5

¹³⁷ Amazon.com, Inc., 2000a, p. 7

competitors, and online auction services, Web portals, Web search engines, online retailers using alternative distribution capabilities, publishers, distributors, manufacturers and physical-world retailers as indirect competitors.¹³⁸ Retailers specialized on a limited product range (so called “Category Killers”), such as “Best Buy” or “Home Depot”, occupied high-margin niches.¹³⁹

Under these conditions, Amazon.com had to exploit its **Innovation Potential** in order to hold its strategic position.¹⁴⁰ Since its beginning Amazon has been an innovating company: its ordering system provided a fast checkout procedure, storing customer information for future purchases and offering secure credit card transactions.¹⁴¹ Customers could check their order status online, and were provided email and telephone support 24-7 via support centres.¹⁴² By 1998, Amazon had developed EC innovations such as shopping carts, 1-Click®-Ordering, personalized storefronts, and customer-friendly search and browse features. Amazon implemented customer interface and channel innovations:¹⁴³ The 1-Click-Technology allows customers to place an order by clicking a single button without having to fill out an order form. Customer shipping and billing information is automatically referenced.¹⁴⁴ Three quarters of customers (73%) find it helpful and convenient when a web site remembers basic information about them, such as names and addresses.¹⁴⁵ In March 1999, Amazon introduced its auction service, which, in contrast to eBay’s auction service, guaranteed buyers financial protection from fraud and also provided access to Amazon’s customer service.¹⁴⁶ Later in 1999, Amazon offered small and medium sized businesses (SMEs) the opportunity to operate individual storefronts using Amazon’s EC platform by means of “zShops”.¹⁴⁷ Also that year, Amazon started to provide web hosting and fulfilment services to other online and offline retailers through its “Amazon Commerce Network” (ACN), charging placement and referral fees.¹⁴⁸ An ex-

¹³⁸ Amazon.com, Inc., 2000a, p. 9 f.; Applegate, L.M., Collura, M., 2000, p. 7

¹³⁹ Applegate, L.M., 2002a, p. 11

¹⁴⁰ Schewe, G., 1992, p. 968

¹⁴¹ Burgelman, R.A., Meza, P., 2001, p. 10; Louie, D.L., Rayport, J.F., 1998, p. 9

¹⁴² Hilliard, U., Horovitz, J., Kumar, N., 2000, p. 4 ff.

¹⁴³ Campbell, M., Collins, A., 2001, p. 30

¹⁴⁴ Amazon.com, Inc., 2000a, p. 4

¹⁴⁵ Personalization Consortium, 2000, p. 2

¹⁴⁶ Leschly, S., Roberts, M.J., Sahlman, W.A., 2003, p. 5; eBay Inc., 2005, unpagged

¹⁴⁷ Amazon.com, Inc., 2000c, p. 1

¹⁴⁸ Amazon.com, Inc., 2000a, p. 1

ample is the partnership with Toys'R'us: under a ten-year deal, Amazon agreed to house Toys'R'us' inventory, ship goods to consumers, process payments, and perform post-sale customer service.¹⁴⁹

Amazon had to redefine its definition of “customer” through its new service offerings.¹⁵⁰ At first, customers were defined as “buyers”, but since the introduction of its marketplace initiative, third party sellers were equally important customers. This change of perspective is reflected in Amazon’s “single store strategy”.¹⁵¹ Under this concept, Amazon presents its own merchandise alongside its partner merchants’ offerings on the same product detail page abolishing the previously existing store frontiers.¹⁵² Amazon shifted its business scope to be an “e-commerce platform”¹⁵³, fulfilling B2C and hosting C2C and B2B transactions.

In October 1999, Amazon launched its “Amazon.com Anywhere” service which allowed customers to access the website from hand-held wireless devices, such as cell phones and PDAs.¹⁵⁴

In November 2000, Amazon entered digital distribution. Amazon’s e-book store offered best sellers and traditional works as well as e-audiobook titles, including digital exclusives that were not available in conventional cassette tape or CD formats.¹⁵⁵ Convenience-features like “Instant Order Update” (which notifies customers if they are about to order the same item twice) and “Look Inside the Book” (enabling customers to see front and back covers of books, tables of contents and samples of inside pages) were other examples of how Amazon translated technological innovations into surplus value to customers. This feature was available on over 0.2M titles in 2001, exceeding the number of titles available in the largest (offline) book superstores.¹⁵⁶

In 2004, Amazon launched its own search engine A9.com, which merges several information sources, including Web and image search by Google, reference information (encyclopaedia and dictionary) through GuruNet.com, book text search through “Search Inside the Book” from Amazon, and movie

¹⁴⁹ Leschly, S., Roberts, M.J., Sahlman, W.A., 2003, p. 6

¹⁵⁰ „Customer Capitalism“, p. 383 f.

¹⁵¹ Leschly, S., Roberts, M.J., Sahlman, W.A., 2003, p. 7

¹⁵² Amazon.com, Inc., 2002, p. 2

¹⁵³ Bezos, J.P., 2000a, p. 2

¹⁵⁴ Amazon.com, Inc., 2000a, p. 4; Amazon.com, Inc., 2000c, p. 1

¹⁵⁵ Applegate, L.M., 2002b, p. 4

¹⁵⁶ Amazon.com, Inc., 2001, p. 3

information plus web site meta-data through its wholly owned subsidiaries Alexa Web Search and the Internet Movie Database (imdb.com).¹⁵⁷ A9.com is a highly personalized search engine, permanently remembering the user's search history, bookmarks, front-end configurations and clickstream. This data is stored for future visits, and used for customized recommendations by Amazon.com at each customer login.¹⁵⁸ This web search initiatives have strategic significance, since buyers conduct many product related searches prior to a purchase, and the majority of pre-purchase search activity involves generic terms.¹⁵⁹

Besides implementing technical innovations, the company also has to tap its **Reputation Potential** in order to generate customer loyalty.¹⁶⁰ As switching costs and lock-in effects are usually low in EC, the risk of losing the customer is high: 28% of consumers who suffered a failed purchase attempt stopped shopping and 23% stopped purchasing at the site in question.¹⁶¹ Literature and practice have identified vendor trust as a crucial factor for EC success.¹⁶² Customer loyalty is a strategic goal since it directly translates into higher revenues, higher margins, and into long-term profitability.¹⁶³ This especially applies to Amazon, which has nurtured loyalty in its customer bases through continuous innovation in service offerings.¹⁶⁴ Customer loyalty is measured by the willingness to purchase more, to recommend the vendor, and by the trust in the vendor.¹⁶⁵ Online retailers usually face lower loyalty compared to their offline counterparts: first, EC's technological base, especially public networks are generally considered as insecure and untrustworthy;¹⁶⁶ second, the electronic retailing communication channel provides less opportunities for confidence-building than face-to-face interactions.¹⁶⁷

¹⁵⁷ Hof, R.D. (2004, p. 52; Amazon.com, Inc., 2004a, unpagged

¹⁵⁸ A9.com, Inc., 2004, unpagged

¹⁵⁹ DoubleClick Inc., 2005, p. 2

¹⁶⁰ Pandya, A.M., Dholakia, N., 2005, p. 78

¹⁶¹ Pecaut, D.K., Silverstein, M.J., Stanger, P., Boston Consulting Group (BCG), 2000, p. 22

¹⁶² Torkzadeh, R., Dhillon, G., 2002, p. 201; Quelch, J.A., Klein, L.R., 1996, p. 70; Urban, G.L., Sultan, F., Qualls, G.J., 2000, p. 40

¹⁶³ Thompson, M., 1999, p. 1; Cooperstein, D. et al. (1999), p. 5 ff.

¹⁶⁴ Reichheld, F.F., Markey Jr., R.G., Hopton, C., 2000, p. 178

¹⁶⁵ Merz, M., 2002, p. 443 f.

¹⁶⁶ Frost, F., 1999, p. 108

¹⁶⁷ Sydow, J., 2000, p. 266

Nonetheless, Amazon reached the highest loyalty values, both in the online book selling and retailing segments.¹⁶⁸

Research found, that perceived size and perceived reputation of an Internet store increase customer trust in this store, leading to a more favourable attitude towards that merchant, to reduced risk perceptions, and finally to an increased willingness to buy.¹⁶⁹

In the case of Amazon, especially the perceived size (as for example emphasized by claims like “Earth’s biggest selection”¹⁷⁰) and the trustworthiness are positively correlated with reputation.¹⁷¹

Chen and Dhillon show that the three factors competence, integrity and benevolence build the multi-dimensional construct of trust.¹⁷² They are positively influenced by company characteristics such as the reputation, brand recognition and offline presence of the Internet vendor and the number of years it has been in business. Website characteristics such as likeability, functionality, usability, efficiency, reliability, portability, integrity, privacy and security, as well as interaction characteristics such as service quality, customer satisfaction, length of relationship, and marketing activities also impact on the consumer’s perception of competence, integrity and benevolence.¹⁷³

Amazon strives to strengthen and broaden its brand name.¹⁷⁴ Opinion Research found that 60% of U.S. adults were aware of the Amazon brand, which ranked as the highest awareness of any EC brand name.¹⁷⁵ Similarly, a study by Interbrand posted Amazon as the 57th most valuable brand – between Pampers and Hilton.¹⁷⁶ The functionalities implemented on Amazon’s website – as depicted in the context of the individualization and innovation potential – and the way they were made available to customers, raised Amazon’s design principles to a reference for the whole EC retailing market.¹⁷⁷ Amazon was recognized as “best-in-class” by several sources.¹⁷⁸ It was ranked among the best in overall performance, in quality based on interface,

¹⁶⁸ Jarvenpaa, S.L., Tractinsky, N., Vitale, M., 2000, p. 57; GfK, 2001, p. 1

¹⁶⁹ Jarvenpaa, S.L., Tractinsky, N., Vitale, M., 2000, p. 59 f.

¹⁷⁰ Amazon.com, Inc., 2005b, unpagged

¹⁷¹ Jarvenpaa, S.L., Tractinsky, N., Vitale, M., 2000, p. 56 f.

¹⁷² Chen, S.C., Dhillon, G.S., 2003, p. 305

¹⁷³ Chen, S.C., Dhillon, G.S., 2003, p. 306, 310, 312

¹⁷⁴ Amazon.com, Inc., 2005a, p. 5; Anonymous, 1999, p. 5

¹⁷⁵ Clarke, K., 2001, p. 164

¹⁷⁶ Ries, D., Truong, V., Unterberg, T., 1999, p. 4; Rowley, J., 2004, p. 133

¹⁷⁷ Weiss, L.M., Capozzi, M.M., Prusak, L., 2004, p. 84; Constantinides, E., 2004, p. 92

¹⁷⁸ Amazon.com, Inc., 1999b, p. 1

customer service, convenience, and content.¹⁷⁹ As the pioneer in EC retailing, Amazon used its potential to set up lasting customer relationships; based on a rating among online retailers, Amazon reached the number one overall customer satisfaction rating.¹⁸⁰

When Amazon expanded its product range,¹⁸¹ it used the reputation transfer method by which companies strive to transfer previously acquired reputation from one branch to another.¹⁸²

Moreover, Amazon provides structures to third-parties in the field of auctions and zShops that engender institution-based trust:¹⁸³ By means of institutional mechanisms such as feedback features, escrow services, and credit card guarantees, Amazon achieved to build a trustworthy marketplace and to encourage online transactions.¹⁸⁴

The customer's comfort level in providing personal data increases with the level of perceived vendor reputation.¹⁸⁵ Amazon's service offerings such as automated recommendations require a large data base,¹⁸⁶ and thus rely on an outstanding reputation. The strategic potential of a gained reputation lead is amplified, if it can be defended and sustained over a customer's experience chain.¹⁸⁷

The strategic challenge for companies in EC markets is to differentiate themselves in the service dimension (as shown in the context of the individualization, swiftness, innovation and reputation potentials) and in the price dimension.¹⁸⁸ To realize a **Cost Leadership Potential** in EC is hard since web-based intermediaries make it easier to search for the lowest price by price comparison features.¹⁸⁹ Amazon endeavours to offer its customers "the lowest possible prices"¹⁹⁰, as they consider low prices as a strategic factor for future success.¹⁹¹ Amazon's pricing strategy also includes free shipping of-

¹⁷⁹ Applegate, L.M., Collura, M., 2000, p. 14

¹⁸⁰ Applegate, L.M., Collura, M., 2000, p. 15; Boyd, A., 2002, p. 177; Kotha, S., Rajgopal, S., Venkatachalam, M., 2004, p. 130

¹⁸¹ Amazon.com, Inc., 2005a, p. 4

¹⁸² Schade, C., Schott, E., 1993, p. 501; Simon, H., 1985, p. 19 ff.; Filson, D., 2004, p. 152

¹⁸³ Malaga, R.A., 2001, S 410

¹⁸⁴ Pavlou, P.A., Gefen, D., 2004, p. 38; Resnick, P. et al., 2000, p. 46

¹⁸⁵ Wamser, C., 2001, p. 87

¹⁸⁶ Weigend, A.S., 2003, p. 15

¹⁸⁷ Simon, H., 1989, p. 89 f.; Kaas, K.P., 1990, p. 546

¹⁸⁸ de Figueiredo, J.M., 2000, p. 45

¹⁸⁹ de Figueiredo, J.M., 2000, p. 46

¹⁹⁰ Amazon.com, Inc., 2005a, p. 55

¹⁹¹ Amazon.com, Inc., 2005a, p. 36; Merrilees, B., 2001, p. 185

fers, and since 2005, members of the “Amazon Prime” program can benefit from free two-day shipping and discounted overnight shipping.¹⁹²

3.4 Exploiting First Mover Advantages

Due to their time advantage, pioneers in EC can realize significant FMAs by setting standards, and protecting innovations by patents and copyrights.¹⁹³

Amazon has pioneered proprietary technologies for its web site management, search, customer interaction, recommendation, transaction processing and fulfilment services and systems.¹⁹⁴ Amazon patented its 1-Click® technology, as well as its Bid-Click® auction bidding process,¹⁹⁵ and in 2000 was also granted a patent on its Amazon Associates Program and on its book recommendation service BookMatcher, which generates automatic recommendations based on customer purchases.¹⁹⁶ Amazon licenses components of its EC platform to third party sellers and hosts third-party sellers’ websites providing its shopping technology.¹⁹⁷

Amazon realized a FMA with the concept of syndicated selling through its Associates and Syndicated Stores programs.¹⁹⁸ The members of the Associates Network, including Internet companies such as AOL.com, Yahoo, Netscape, Excite and the AltaVista Search Service, recommend Amazon products to their own visitors and earn a referral fee and a commission in case of completed purchases.¹⁹⁹ Amazon participates in cooperative advertising arrangements with some of its vendors, and with other third parties.²⁰⁰

As shown in section 3.3, Amazon realized all demand-side FMAs depicted in section 2.5 (numbers (6) to (10)), by tapping its various Value Creation Potentials. However, Amazon has not yet succeeded in the most difficult matter of course in strategic planning: its Operating Efficiency is still low, overcapacities in operations and fulfilment overshadow its business perspectives, and losses accumulated over years are a burden for the future.

¹⁹² Amazon.com, Inc., 2005a, p. 35

¹⁹³ Goolsbee, A., 1999, p. 14; Golden, W., Hughes, M., Gallagher, P., 2003, p. 39

¹⁹⁴ Amazon.com, Inc., 1999a, p. 5 f.

¹⁹⁵ Applegate, L.M., 2002a, p. 6

¹⁹⁶ Applegate, L.M., Collura, M., 2000, p. 12

¹⁹⁷ Applegate, L.M., 2002b, p. 2; Amazon.com, Inc., 2001, p. 5

¹⁹⁸ Amazon.com, Inc., 2005a, p. 39

¹⁹⁹ Applegate, L.M., Collura, M., 2000, p. 13 f.

²⁰⁰ Amazon.com, Inc., 2005a, p. 61

4 Conclusion and Outlook

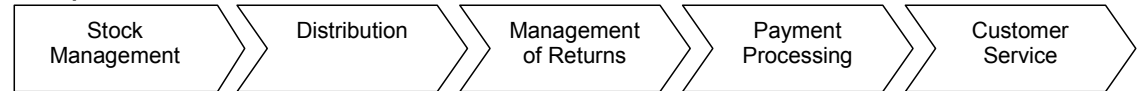
We discerned principles for success in electronic commerce and identified context factors and value creation potentials in EC retailing, subject to a Porter's Branch Structure Analysis. We showed how the core strategies of the first-mover Amazon, based on customer focus, continuous innovation and established reputation, paved Amazon's way to market leadership.

Amazon has managed to move beyond the status quo of being "one among many" to become market leader. Constant groundbreaking is a critical factor in its success. Amazon's expertise not only in meeting customer requirements but in driving them through an advanced exploitation of technology indicates that it strives to remain several steps ahead of the competition. Amazon is shaping and leading the market rather than adapting to it. The question that remains is whether Amazon will be able to continue to maintain its leading position. Only time and further research will answer this issue.

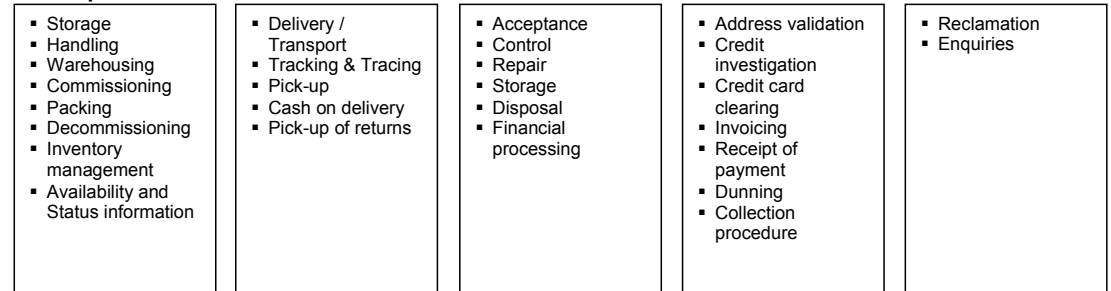
Appendix

Exhibit I²⁰¹

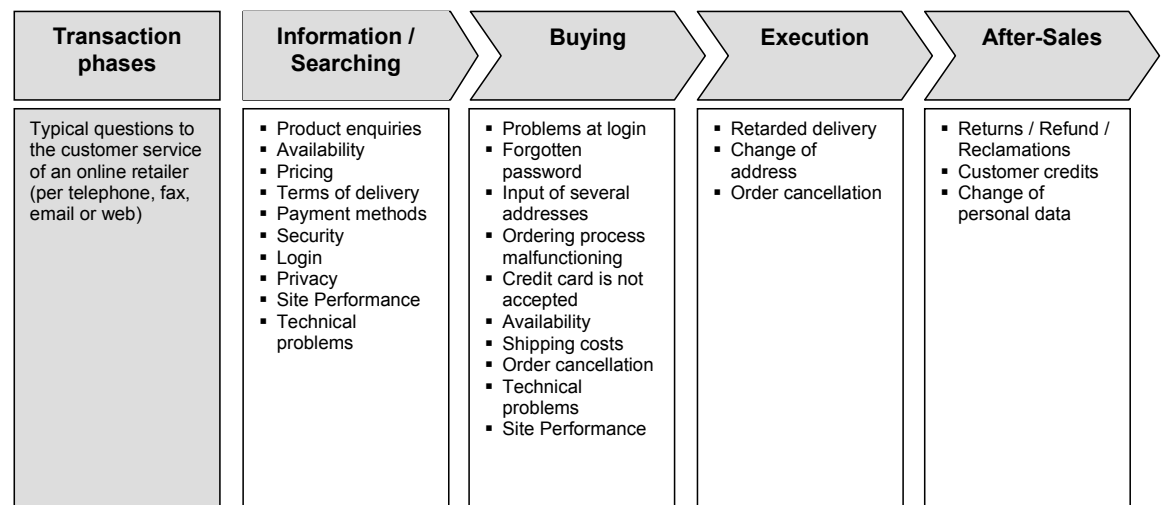
Main processes / Functions



Partial processes



Overview of the fulfilment processes and their partial processes



Fulfilment-specific Issues in the EC transaction phases

²⁰¹ Merz, M., 2002, p. 446, 453

Exhibit II²⁰²**Business Model Comparison – Land-based retailer vs. Amazon.com**

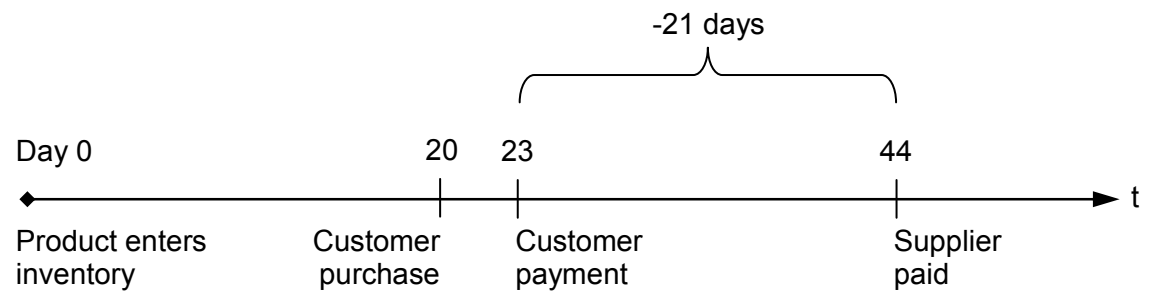
	Land-based retailer	Amazon.com
Superstores	439	1
Titles per superstore	175.000	2.500.000
Occupancy costs (% sales*)	12%	< 4%
Sales per operating employee	\$100.000	\$300.000
Inventory turnover	2-3x	50-60x
Sales per square foot	\$250	\$2000
Rent per square foot	\$20	\$8.00

* includes Rental, Depreciation, Amortization, and Pre-Opening expenses

²⁰² Source: Gurley, W.J. "Amazon.com: The Quintessential Wave Rider", Deutsche Morgan Grenfell, June 9, 1997; taken from: Katz, L.E., Amazon.com Going Public, in: Entrepreneurial Finance - A Case Book, P.A. Gompers, W.A. Sahlman, New York, 2002, S. 538-568

Exhibit III²⁰³

Amazon.com Operating Cycle (as of 31.03.2004)



²⁰³ Szkutak, T., 2005, p. 7; Mui, C., 2004, p. 3

Exhibit IV²⁰⁴**Comparison of Book Pricing**

		Stores		Internet	
		Borders	Barnes & Noble	Amazon	Barnes-andNo-ble.com
Bestseller Hardcover Into Thin Air (Jon Krakauer)	List Price [US\$]	24.95	24.95	24.95	24.95
	Discount	30%	30%	40%	30%
	Price [US\$]	17.47	17.47	14.97	17.46
	NY Tax @ 8.25%	1.44	1.44	-	-
	Shipping and Handling [US\$]	-	-	3.95	3.95
	Total Cost [US\$]	18.91	18.91	18.92	21.41
Hardcover Debt of Honor (Tom Clancy)	List Price [US\$]	25.95	25.95	25.95	25.95
	Discount	10%	10%	30%	30%
	Price [US\$]	23.35	23.35	18.17	18.16
	NY Tax @ 8.25%	1.93	1.93	-	-
	Shipping and Handling [US\$]	-	-	3.95	3.95
	Total Cost [US\$]	25.28	25.28	22.12	22.11
Paperback Horse Whisperer (Nicholas Evans)	List Price [US\$]	7.50	7.50	7.50	7.50
	Discount	0%	0%	20%	20%
	Price [US\$]	7.50	7.50	6.00	6.00
	NY Tax @ 8.25%	.62	.62	-	-
	Shipping and Handling [US\$]	-	-	3.95	3.95
	Total Cost [US\$]	8.12	8.12	9.95	9.95

²⁰⁴ Barry, D., 1997

Exhibit V²⁰⁵

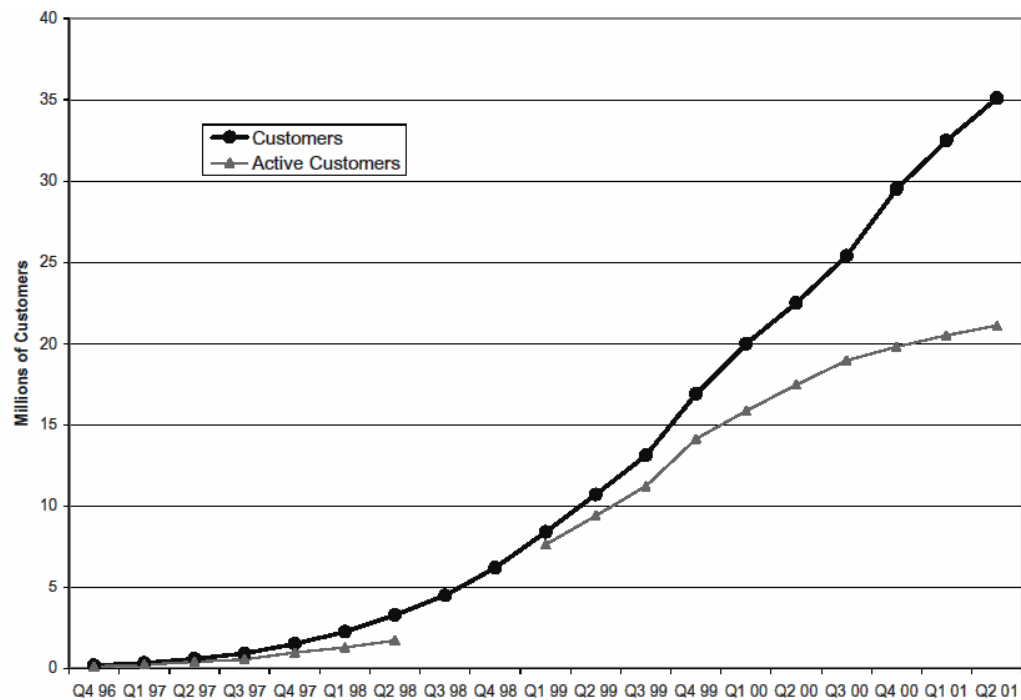
Amazon's Product Categories (2004)

- Apparel, shoes, and accessories
- Home, garden, and outdoor living products
- Baby care products
- Jewelry and watches
- Books
- Kitchenware and housewares
- Beauty
- Magazine subscriptions
- Camera and photography
- Music and musical instruments
- Cell phones and service
- Office products
- Computers and computer add-ons
- Software
- Consumer electronics
- Sports and outdoors
- DVD's, including rentals, and videos
- Tools and hardware
- Gourmet food
- Toys and video games
- Health and personal care

²⁰⁵ Amazon.com, Inc., 2005a, p. 4

Exhibit VI²⁰⁶

Amazon.com Worldwide Customer Growth, Quarterly Data (in millions)



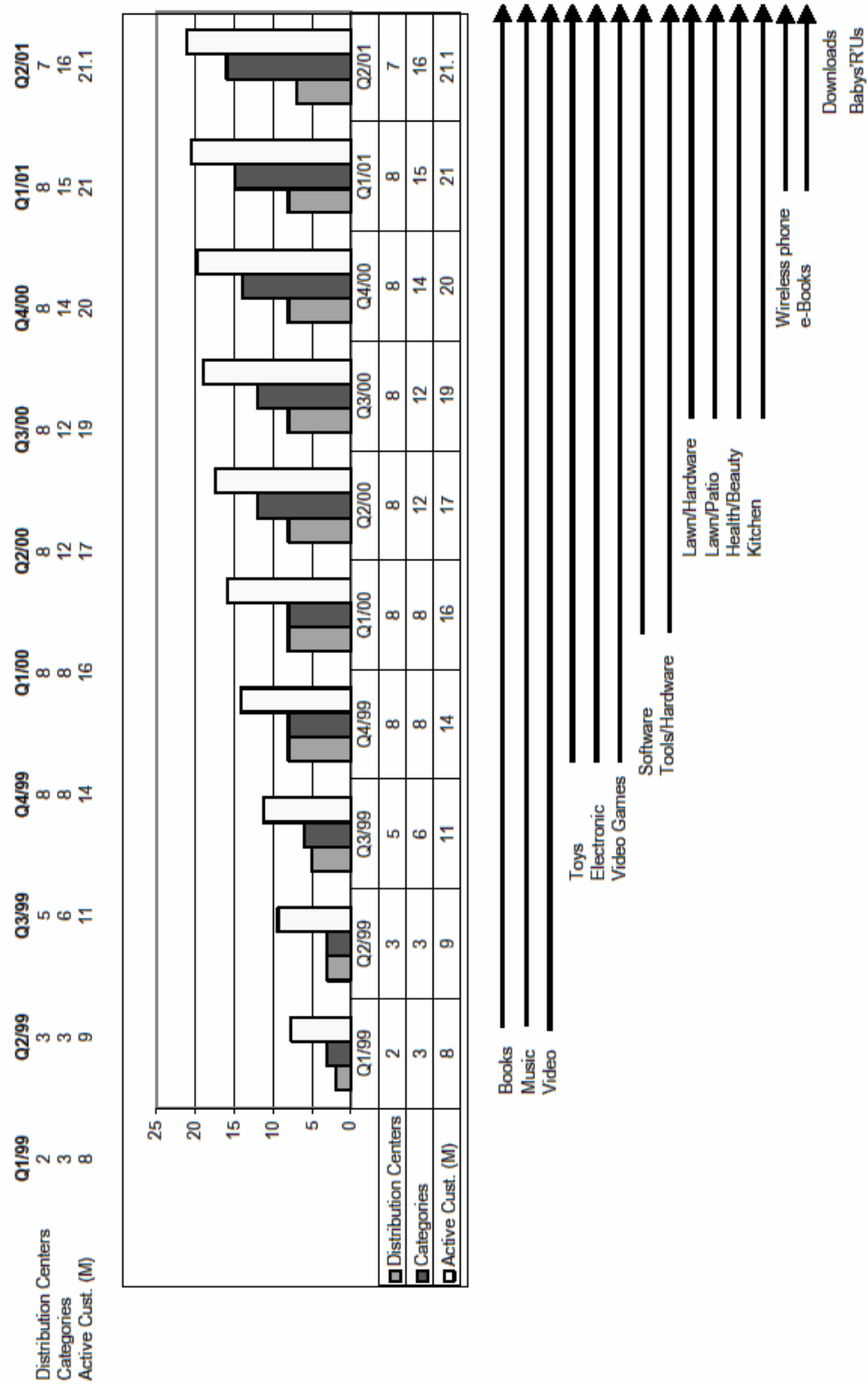
Note: Active Customers are customers who ordered in the trailing twelve months. Active customer data for the last two quarters of 1998 are not available.

Source: Company reports and authors' estimates.

²⁰⁶ Mendelson, H., Meza, P., 2001, p. 22

Exhibit VII²⁰⁷

Expansion of Amazon's Product Categories, Active Customers, and Distribution Centers

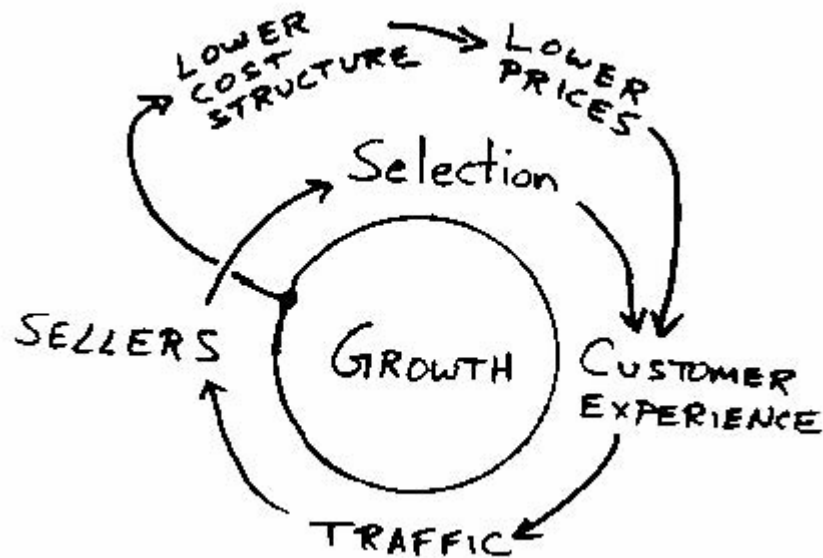


²⁰⁷ Mendelson, H., Meza, P., 2001, p. 25

Exhibit VIII²⁰⁸

Growth Drivers – Amazon's Virtuous Cycles

Sketch, Jeffrey P. Bezos, 2001



²⁰⁸ Mui, C., 2004, p. 4

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