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[Review]

## A Brief Analysis of Amazon and Distribution Strategy

Yoonah Hahn\*, Dongho Kim\*\*, Myoung-Kil Youn\*\*\*

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### Abstract

**Purpose** – The purpose of this paper is to analyze and illustrate Amazon’s business strategies and its success in terms of its distribution strategy and business practices.

**Research design, data, and methodology** – This is an analytical case study that examines Amazon’s business strategies to demonstrate the importance of technologies to the success and sustainability of its organization.

**Results** - The analysis indicates that the business strategies, including technology, distribution infrastructure, and customer service, are the most vital factor for the success and rise of Amazon, and these strategies have separated Amazon from its competitors in both e-tail and brick and mortar retail industries.

**Conclusions** - Given Amazon’s continued growth that came with its constant strive for delivery and cost efficiency, technology innovation, and customer satisfaction, it was inevitable that Amazon would eventually venture into different types of businesses. The previous and current Amazon’s business strategies demonstrate that Amazon will continue to focus on developing and implementing new and creative strategies to separate itself from the rest of the retail and e-businesses. Furthermore, retail businesses in the most high-tech countries in the world, including Japan, Korea, and Russia, may have to adopt business strategies that are similar to those of Amazon to maintain their competitiveness.

**Keywords:** Amazon, Business Strategies, Distribution, Retail Industry.

**JEL Classifications:** L1, L2, L8.

### 1. Introduction

Starting as an online bookstore in 1995, Amazon.com Inc. (hereinafter “Amazon”) has grown to be the world’s largest online retailer, operating more than 361 fulfillment centers, Prime Now hubs, and other facilities in 14 different countries as of January 2017 (MWPVL, 2017). It sells almost everything from electronics to baby and beauty products to gardening tools to music and videos, among vast others. Despite the ups and downs and the misgivings of the Wall Street throughout the years, Amazon and its founder Jeff Bezos have insisted on the three criteria that “revolve around the customers and their demands: The best selection, the lowest prices, and cheap, convenient delivery

options” (Amazonian Strength, 2008). It is now no secret that Amazon has revolutionized the online retailing business and delivery systems around the world. Amazon’s success has not never been recognized by three criteria that were identified by its CEO because many researches associated with e-commerce and e-business heavily focused on websites and customer services through technology instead of other variables that could be measured in physical retail industry (Lee, 2016).

While “gauging its strategy county-by-country with the goal of securing capacity and increasing customer convenience”, Amazon has changed the game of the e-tailers by first launching the same-day delivery service, soon followed by one-hour delivery service in major U.S. cities and even a Wi-Fi-connected Dash buttons for immediate re-ordering of select products, making it a “when-I-want-it and where-I-want-it” delivery service for its customers (Lierow, Janssen, & D’Inca, 2016). In order to accomplish this feat, Amazon has not only partnered with several delivery companies and acquired its own fleet of trucks, but also developed an app called Amazon Flex, which registers private drivers and matches them for an Uber-like delivery service for packages (Id.).

\* First Author, Faculty Adjunct/Attorney, SUNY Empire State College, USA. Tel: +1-315-773-6139, E-mail: Yoonah.Hahn@esc.edu

\*\* Co-Author, Associate Professor, Department Chair, Business, International Business & Marketing, SUNY Empire State College, USA. Tel: +1-607-273-4536, E-mail: Dongho.Kim@esc.edu

\*\*\* Corresponding Author, Professor, College of Health Industry, Eulji University, Korea. Tel: +82-31-740-7292, E-mail: retail21@hanmail.net

## 2. Amazon's Success

Amazon's success can be largely attributed to Jeff Bezos' philosophy of "never stop innovating" (Amazonian Strength, 2008), and Amazon has continuously engaged in the innovation and expansion of its logistics infrastructure in order to increase its efficiency and combat the rising costs of delivery (Kim, Kim, & Youn, 2013). Shipping several billions of packages a year (Hern, 2015), delivery costs account for about 10-15% of Amazon's net sales (Team, 2016). As such, reducing shipping costs is a crucial component of maintaining a competitive edge, and Amazon has taken aggressive steps to control its entire logistics chain to lower the delivery costs while increasing speed and efficiency of its deliveries. In fact, the strategies utilized by Amazon has been seen as a calculated plan "to become a full-fledged logistics company" (Id.) that will eventually compete with other shipping companies such as FedEx, DHL Worldwide Express and the United Parcel Service (Saito & Goh, 2016).

After turning away from their first book sales company, Amazon pushed for changed their company as a shopping mall, but it never satisfied with their position. In addition, Amazon is growing to become the height of international success that covers all the fields of goods. This source provides details in <Table 1>.

<Table 1> Amazon Advancement Area

Entry Field	Details	Remark
Electronic Commerce	The largest share in the US e-commerce market. Over 44% of US households joins Amazon Prime.	
Logistics	Shipping Center, Boeing aircraft, Truck, Drone Delivery.	
Grocery	Amazon +Whole Food= No. 1 company in US groceries.	Competitive advantage for Wal-mart
Fashion	The year 2021, expected to be the No. 1 in the US clothing retailer sales.	
Cloud Computers	The largest share in the US e-commerce market.	
A.I	The largest share of eco-speaker in the market.	
Entertainment	Won three Academy Awards. Amazon Video Prime subscriber 60 million people.	
Pharmaceutical Medical	The formation of Health Care Company. Pharmacy license 12 states of the US	
Finance	Loan to small and medium businesses for 6 years – 3 billion dollars.	
Space Tourism	The year 2018, Space tourism to ordinary people. The year 2020, launching moon landing cargo space craft.	

## 3. Distribution Strategy

Distribution systems and strategies don't guarantee the success or growth of e-commerce and e-business in distribution industry (Baek, 2017). However, recognizing the importance of distribution systems and strategies and developing and continuously improving distribution systems significantly affected the current success of Amazon. Recognizing that "distribution systems will be one of the things that will separate the winners from losers", Amazon from early on in 1999 "decided to take command of inventory and shipping activities themselves" (Kargar, 2004). Amazon recognized that all the best websites, marketing, or other features would be useless if the products were not delivered on time. It then determined that the expansion of its own distribution centers would increase efficiency and decrease shipping costs, and by 2001, operated an aggregate of over 4 million square feet of fulfillment facility spaces in Delaware, Kansas, Kentucky, Nevada, North Dakota, and Washington in the United States and abroad in United Kingdom, France Germany, and Japan (Kargar, 2004).

Currently, Amazon operates an aggregate of over 138,825,900 active square feet of warehouse spaces in 28 states throughout the United States and Canada, Mexico, United Kingdom, Germany, France, Italy, Spain, Czech Republic, Poland, China, Japan, India, and Brazil (MWPVL, 2017). In the beginning, Amazon packages were typically picked up by UPS, FedEx, or the U.S. Postal Service at one of the fulfillment centers. However, in addition to the cost issue, these third-party delivery companies have not always been reliable, and when UPS and FedEx failed to deliver thousands of packages guaranteed to be delivered by Christmas (Jayakumar, 2013), Amazon was forced to revamp and make strategic moves to gain more control over its delivery system: To "increase capacity for package delivery", Amazon purchased thousands of semi-truck trailers "to transport packages between fulfillment and sort centers around the country" (Stewart, 2015).

In recent years, more and more Amazon packages are handled internally by sorting the packages by the ZIP codes then trucking the sorted packages to a Postal Service facility near the destination. The Postal Service then takes care of the final delivery (Weise, 2016). Similar strategy is seen in other countries with respect to local deliveries. Amazon is reportedly operating 240 delivery vans through 6 sub-contractors in Germany and delivering about half of its last mile deliveries to customers' front door directly using its own trucks in the UK, a strategy likely to be utilized in other European countries (Spend Management Experts, 2016). Amazon's strategy for local deliveries does not stop there. Amazon is experimenting drone delivery service called Prime Air, and in December of 2016, "Bezos announced the first ever Amazon Prime Air customer delivery", which took

place in the UK (Silver, 2016).

Globally, Amazon started its venture into the actual shipping business in 2014 with the purported purchase of 4.2% stakes in Yodel, a UK delivery company, and a 25% stakes in Colis Prive', a French delivery firm (Weise, 2016). The purchase of the stakes in these two companies is said to have given Amazon a "partial control of 6,700 delivery trucks, handling 170 million shipments per year in the United Kingdom and France (Lierow, Janssen, & D'Inca, 2016). In the meantime, Amazon has reportedly engaged in trials runs for its own air freight business by chartering Boeing 737 in Europe to fly between its major fulfillment centers in Europe and Boeing 767s in the United States (Goodway, 2015). The next logical step, then, would be China, "the second largest economy in the world" (Avittathur & Jayarm, 2016).

It is within the documents filed therein that reveal Amazon's aggressive expansion of its logistics enterprise is far beyond an effort to control the rising shipping costs. This means that trucking, warehousing, and shipping problems, which normally require contracts with multiple companies for merchants and manufacturers, are solved with Amazon. Amazon would handle all the paperwork, shipping, and transportation of their products, which would then be stored in one of Amazon's fulfillment centers, making the products available to its over 310 million customers (Statista, 2016) through "fulfilled by Amazon" and Prime. "Amazon directly imported about 10,000 20-foot containers into the U.S. last year and received an additional 20,000 containers from merchants as part of the company's Fulfillment by Amazon program" (Saito & Goh, 2016). It is worth noting that for the first time, Amazon's 2015 10-K filing with the U.S. Securities and Exchange Commission identifies its "current and potential competitors" to be "companies that provide fulfillment and logistics services for themselves or for third parties" (Amazon.com, Inc., 2015).

#### 4. Conclusions

Amazon's efforts into distribution infrastructure may have initially been to control rising costs and efficiency of its delivery system. With Amazon's continued growth and constant strive for innovation and customer satisfaction, it seems inevitable that Amazon would eventually command its own network of distribution infrastructure from direct last mile deliveries to cross-border and oceanic distribution service, which would cater to merchants all over the world with additional benefits that other traditional shipping companies would not be able to provide. The brief analysis of Amazon's distribution strategy indicates that the distribution strategy, including technology, shipping, and distribution infrastructure, is the most vital factor for the success of Amazon.

Recognizing the importance of distribution systems, constantly innovating convenient and on-time delivery

methods, and taking control of inventory and shipping activities have separated Amazon from its competitors and led Amazon to establish many different types of fulfillment facilities all over the world. Given Amazon's continued growth that came with its constant strive for delivery and cost efficiency and customer satisfaction, it was inevitable that Amazon would eventually venture into the actual shipping business and emerge as the competitor of the traditionally well-known shipping companies such as DHL, FedEx, and UPS. Unlike the traditional shipping companies, however, Amazon provides invaluable benefits in addition to the handling of all the paperwork, shipping, and transportation involved in trans-oceanic and cross-border shipments for its merchant customers: Amazon can store their products in one of its fulfillment centers, making the products available to its millions of consumers through "fulfilled by Amazon" and Prime. The previous and current Amazon's distribution strategies demonstrate that Amazon will continue to focus on developing and implementing new and creative distribution strategies to separate itself from the rest of the retail and e-businesses.

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