

## Brief Talk on Amazon's Strategies in Corporate Entrepreneurship

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### Abstract

**This article follows the framework of Ireland, Hitt and Sirmon(2003) to demonstrate the strategies of Amazon. It includes brief introduction to the history of Amazon and story of the founder Jeff Bezos. It is about seeking opportunity, leadership , company goals, corporate risks and internal management. Besides these, analysis of industry environment are also mentioned in the article.**

### Keywords

**Amazon, Corporate Strategy, Entrepreneurship, Bezos, Framework.**

### 1. Introduction

Amazon is a global online retailer with the most varieties of commodities and it is also the second largest Internet companies in the world now. The Business-to-Customer (B2C) model organization was only a small bookstore in 1994 when Jeff Bezos founded it in America. Though there are many people criticizing on Amazon's continuous loss, no one can deny that it did make much progress in the past 21 years. The remarkable success of the e-commerce company is attributed to both the promotion of the development of Internet and its own entrepreneurial strategies. This essay will interpret why Amazon.com can get huge success among the great amounts of competitors who are with the same model and similar aims with it.

### 2. Organization of the Text

#### 2.1 The reason for why the article chose Amazon and Ireland, Hitt and Sirmon (2003) framework

Actually, Amazon is a controversial company though it expands very rapidly since 1994 and spreads over 31 countries including China now. While the huge progress it made cannot compensate shareholders' continuous loss over the 21 years, which make Amazon come under a lot of criticism from the public. However, personally, I appreciate the entrepreneurial strategies though they are still suffering loss now. Firstly, they spend money carefully and put financial capital into innovating and creating instead of purchasing unnecessary assets like furniture, building and so on. Though expenditure is over revenues now, it is perfecting itself and forming competing advantages for sustainable development. Not every enterprise has such long-term perspective and willpower like Amazon. Secondly, Amazon put customers' benefits at the first position. It is the key for an enterprise to get customers' loyalty that is also a way to increase brand equity (Lassar, Mittal and Sharma, 1995). Therefore, the behaviour of Amazon will contribute to customers' loyalty and accelerate its development speed. In this case, I think Amazon is a successful enterprise to some degree and this article will interpret the entrepreneurial strategies of it.

For such a huge enterprise, this article will analyse it in Ireland, Hitt and Sirmon (2003) framework (Figure 1). The reason is that Amazon is an innovated enterprise who is taking unique entrepreneurial strategic in e-commerce business competition. It focuses on seeking opportunities and advantages, which is just the focus of Ireland, Hitt and Sirmon (2003). Its mind-set, goals, innovations, strategy to allocate resources, application of creativity and competitive advantages all reflect the uniqueness of Amazon. Actually, all these entrepreneurial strategies are coherent and depending on each other though the article following will interpret these separately. However, the framework ignores the

employees' individual decision as in Kuratko et al (2004) framework and hierarchy in management as in Shimizu (2012). The ignorance will influence the analysis in the internal factors for the success. It must be emphasized that the enterprise's success never depends on the CEO's own decisions and efforts but the whole team of Amazon. It is an apparent limitation of this article.

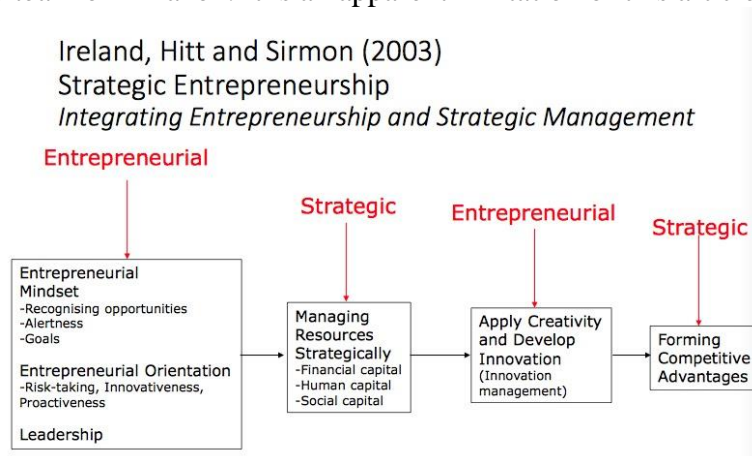


Figure 1, Framework of Ireland, Hitt and Sirmon(2003)

## 2.2 Recognizing the opportunity when Internet was becoming popular

In 1990s, Internet was just becoming popular and many families could afford to buy a computer. Due to the popularity of the newly sprouted thing, some kinds of enterprises based on Internet appeared and one sort of these is Business-to-customer model organizations. This kind of organizations is defined as a term describing the communication between businesses and consumers in the selling of goods and services (Oracle, 2000). At the beginning of the flourishing age, Jeff Bezos, the founder and CEO of Amazon, quitted his high-salary and comfortable job in Wall Street and began his entrepreneurship in 1994. Because he found that Internet was an area with great potential and he considered what kind of industry could get benefits from it. He came up with a great idea, creating a store with everything online. However, at the beginning of the great plan, he had to choose only one kind of products on account of very limited resources.

There are three reasons for him to choose books as the first product. Firstly, identic quality and purity of books make sure that whichever bookstore the customer choose, he can only buy the totally same ones. Secondly, there were only two big book -store at that time Ingram and Baker & Taylor (Stone, 2013), which allowed them to avoid contacting to thousands of publishers directly. Last but not least, there were book- store online such as Future Fantasy at that time, but customers were not satisfied with their unprofessional packing and delivery (Ibid). Bezos and other founders found that this was a very rare opportunity thanks to the market vacancy. Based on the rapid development of Internet, Bezos achieved his dream of creating a store of everything and Amazon has become one of the biggest retailers all over the world. It is not difficult to conclude that proper opportunity recognition is very important for an enterprise.

## 2.3 Short Term Profits are NOT what we are seeking for

Since 1994, Amazon has suffered great losses according to its financial reports over the 20 years. However, the attitude of Jeff Bezos is not as negative as others because he believed that Amazon will make profits in the future and now they are hiding capacities and biding time. It is interesting that this business model is treated as typical model of the extraordinary organization in business field (Stone, 2013). Jeff Bezos said: "We must treat the customers' benefits in the first place, put eyes on long-term development and provide innovated products continuously." In contrast, most companies only focus on the short-term profits and pay much attention to their competitors instead of their customers. If no handsome profits gained in several years, these companies will turn to a new area to start new business. Thanks to insistence and alertness, Amazon survived from many times crisis and developed persistently and stably. For a sustainable enterprise, it seems that surviving loss is an unavoidable process if it wants to win among the competitors.

## 2.4 What are the goals of Amazon

In traditional financial view, all enterprises' objectives are to maximize shareholders' profit (Jensen, 2001). However, in respect of Amazon's objectives, there are three primary ones in different periods since the foundation of it. Firstly, in 1994, Amazon aimed to become "Earth's Biggest Bookstore" because they only sold books at that time. In the second period, from 1997, the enterprise began to expand not only on the varieties of products but also on covering territory. They began to sell all kinds of products, from cages for dogs to digital cameras. The logo also became the picture as following (Figure 2) which means that A to Z includes everything. Besides the USA, Amazon is available in 31 countries now, China, Canada, South Africa, Japan, France, Belgium, Poland and so on. During this period, their goal was to be "The Internet's NO.1 Retailer". In the third period, after the dramatic expansion, from 2001 until now, their objective is to become "The World's Most Customer-Centric Company", which is also the original intention of Amazon. It is not difficult to tell from these three objectives that being global and customer-centric is always the aim of Amazon.



Figure 2, Amazon Logo

## 2.5 Risk-Taking is always accompanying with innovation

In order to achieve the objectives and fit to the changing external environment, Amazon has to be active to innovate and change. In this process, the company must take unavoidable risks. For example, in November 2000, Amazon.com created Marketplace, a platform allowing customers can buy not only new books but also second-hand ones at a lower price. It was a creative innovation for Amazon. However, the Association of American Publishers and Writers Union published a public letter to claim the behaviour of Amazon.com because they thought the strategy would have much influence on the sales of new books (Stone, 2013). The letter even pointed that selling second-hand books would violate the rights of authors and publishers. What is more, something worse also need to be considered by executives of Amazon is that their company might have negative impression on customers and lose customers' loyalty because of the undemanding qualities of second-hand books from the third party. Actually, the debate calmed down gradually after Amazon.com took the policy to set higher criteria for the third party and push out new books continuously. Actually, risks are everywhere especially when an enterprise is innovating and changing. It is of vital importance for executives to settle the unexpected problems well after innovation.

## 2.6 Who is Jeff Bezos

Jeff Bezos, the CEO of Amazon, was born in New Mexico in 1965. The outstanding entrepreneur, whose parents divorced when he was very young, lived with his stepfather, mother and siblings in his childhood and he got a lot of care and education resources provided by his parents. When he was 30 years old, he quitted his job in Wall Street and created Amazon. Someone comments that Bezos' distinguished ability is related to his uncommon family experience though Bezos' family seems no difference with others (Stone, 2013). He has insistence and calmness more than others. This characteristic of his personality reflects on his style of work. As Steve Jobs and other famous CEOs, Bezos has faith and ability to change the surroundings. The quality makes his ambition come to realize. Though he is outgoing and all people around him know his typical laughter, employers still will feel upset when taking the same lift with him (Ibid).

Bezos is very focused on everything but will not make you feel pressed for time because he always seems slipping over but actually not. He pays high attention to hiring the most excellent and smartest employees because he thinks it is the key for a company to get success. The CEO interviewed employees for many years after Amazon became successful. It is hard to say whether unusual family experience made Bezos possess the ability to be calm whatever he met. However, no one can deny that the excellent CEO is the key of Amazon's success because his long-term view and outstanding ability made today's Amazon. Entrepreneurs are always treated as hero and the unique nature of corporate usually disappear with the departure of CEO (Donald, Michael & Jeffrey, 2013). Maybe the theory will come true in Amazon because Bezos is the soul of Amazon.

### **2.7 How Amazon allocates resources?**

Amazon, a 'stingy' company?

Allocating financial resources appropriately is a challenge for a company, which can affect both the future plan of the company and shareholders' trusts (Ferguson and Dickinson, 1982). In Amazon's corporate culture, one of the most important operating principles is frugality that was set since foundation. This character implies everywhere in Amazon's operating. Table jointed by door planks is a symbol of the company. It reminds employees the hard time of initial stage of pioneering. It is said that Bezos and other founders used such tables when they created Amazon in garage. Sometimes, employers even cannot get enough necessary equipment in work. Udi Manber, an employee graduated from Washington University, once he led his team to create the function for customer's free reading for several pages before they bought a book (Stone, 2013). However, Amazon did not provide enough computer resources, which forced his team to work in every night and weekend to take use of other employees' computers. It is not difficult to tell that Amazon does pay much attention to frugality and the company does save a lot of money.

However, it also brought many problems. It is reported that in a fulfilment centre of Amazon in America, 15 workers got heat stroke because of the terrible working condition without air conditions (Ibid). Some details were also mentioned that there was an ambulance staying out hired by Amazon waiting to transport aswoon workers to hospital. A mass of negative reports made Amazon has to take some policy to solve the problem and redeem their damaged public image. The second year of that event, Amazon claimed that they would invest 52 million dollars to install air conditions in fulfilment centres (Ibid). After that, workers did not complain so much as before and Amazon's reputation has been improved gradually. Actually, improving working conditions is necessary for a good enterprise because it not only benefits its reputation but also helps to increase employee's loyalty and efficiency in work. But it seems that there is a conflict between the good working condition and frugal principle in Amazon.

Who are employed in Amazon?

In respect of human resources, Amazon focuses on hiring the best employees. There is an innovation in human resources management that Amazon respect women more than other companies and aim to break the glass ceiling for women in career. The percentage females' take in Amazon.com is 37% and 25% of global gender managers are females. Compared with the most highly paid executives of Fortune 500 companies only 6% are women and only 15% of the seats on the boards of directors are held by women (Eagly and Carli, 2007). The innovated company give the equal opportunities to not only to women but also all people who are minority, disabled and vet. Amazon was given by many awards for this innovation such as a top military spouse- friendly employer by G.I. Jobs. In order to help employees to transit careers, Amazon built onsite classrooms so college and technical classes can be taught inside their fulfilment centres. While employees must perform well in Amazon or they will be fired due to the bad records of observing system. All of these strategies are to improve the employees' efficiency in work. Amazon encourage employee to work overtime to make profits for the company.



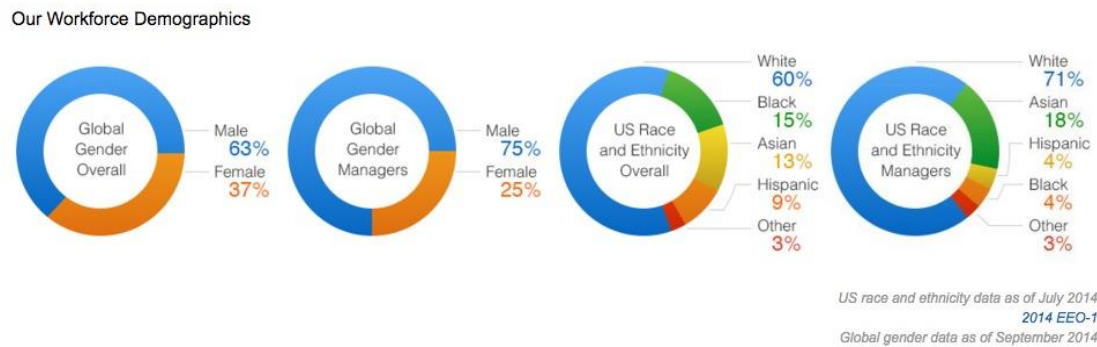


Figure 3, Data from website of Amazon

How Amazon takes corporate social responsibility?

Actually, Amazon takes social responsibility of business in hiring minority and vet, usual operating activities and charity. In respect of hiring minority and vet, such vulnerable groups can get equal opportunities as others in employment in Amazon. Actually, Amazon not only provides jobs for these people but also relieves burden on society in employment of minority and vet. In usually activities, Amazon sells books in low prices, which encourages more people to read. Kindle also should be mentioned here because it is easy to carry, which increases the total reading time of readers. Reading is such a good approach to improving people's knowledge and ethical quality. It contributes much to a country's humanity culture. Amazon also takes an active part in charity field. Amazon in China donated 2 million RMB to Yaan earthquake stricken area in 2013. In the next year, October 2014, the tenth year of Amazon in China, they supported 200 children with AIDS from Henan Province for 1-year education fees. Luo and Bhattacharya (2006) pointed that taking corporate social responsibility (CSR) well can increase customers' satisfaction and market value. Amazon is very successful in taking CSR because it not only gains revenues but also builds company's image in public.

### 2.8 Kindle-Amazon's star product

All enterprises stand based on its creative and innovated products and services. The most representative product of Amazon is Kindle that is a kind of electronic-equipment for reading. It has apparent advantage in reading due to the function easy to carry, no harm to eyes and huge memory with more than 200 books. In 2004, in order to contend against Apple, Bezos formed a secret special group and set the mystery 126 Laboratory Room in Silicon Valley to invent Kindle. Amazon aimed to destroy its own sales in traditional books but to develop a full-fledged digital library. The experiment was carried out secretly even the staff in Amazon only treated it as a rumour. Until 2007, Bezos claimed the existence of Kindle and prepared to launch and produce in large volume. Surprisingly, Kindle is a very successful innovation and Amazon put efforts in publishing digital books in order to provide a huge digital library with it. Because reading in Kindle saves money and space, many customers preferred to Kindles than paper books. It is reported that Amazon sold 105 books for its Kindle e-reader for every 100 hardcover and paper books in 2011 (Miller and Bosman, 2011). Kindle did not only gain profits for Amazon but also consolidate customers' loyalty to the company because there are seldom websites providing formal e-books complementing with Kindle.

### 2.9 What are competing advantages of Amazon?

Over the 21 years, Amazon has formed competitive advantages that others cannot imitate. One of the advantages is that the reviews from customers who have used the specific product. This kind of reviews is defined as "peer-generated product evaluations posted on company or third party websites" (Mudambi and Schuff, 2010). Amazon sets 1-5stars levels for customers to choose. What is more, there is a question to everyone who saw the reviews "Was this review helpful to you?" System positions the most helpful one more prominently on the page. Customers can make decision more easily because of such true and useful information from the previous customers. Compared with the traditional reviews, all were from experts instead of the people who really used the product. Amazon

did do a very good job because of the innovation and they also get benefits from this. Besides the incremental revenues of sales, other companies who sell the same product with Amzon.com even buy the customer-authored comments from Amazon.com posted on their own webpage, which also adds revenues to Amazon (Ibid).

Providing low-price but good-quality products and using self-operating express delivery are also advantages of Amazon. Comparing to some websites, like Taobao and Jingdong in China, Amazon products have more assurance of quality with a lower- price than market price. What is more, Amazon's express department makes sure the whole service from receiving the order from customer to customer receiving packages home swimmingly. It not only avoids many conflicts between express company and customers but also save a lot of time to make sure customers get the package as soon as possible. In many cities in China, customers even can receive the package within 24 hours. What is more, the service of sales return is very thorough and customers will not feel worried about it when they purchase something on Amazon websites. These are much better than its competitors whose after sales services will bring trouble to customers sometimes. Besides these, Amazon also has other unique advantages that its competitors hard to imitate such as one-click to buy, purchase on other country's Amazon and so on. These competing advantages support Amazon to be successful in B2C business competition. However, Amazon should be innovated all the time and to form more advantages in case of being imitated and chased after by competitors.



Figure 4 picture from Amazon website

### 3. Conclusion

Commenting a company successful or not should be based on a specific degree. This article mainly analyses the successful aspects of Amazon while it also has many shortages. From the financial view, long-run loss is irrefragable truth and no one can promise it will recover the loss in the future certainly. Focusing on the internal structure, strict management and plain working environment may make employees to chase after better welfare and hop to other companies like Google and Apple. Amazon may have to suffer from the outflow of talents if it still keeps frugal and strict. This will also lead to less competition in market because no excellent employees innovate for Amazon. Therefore, an enterprise has to balance its benefits and loss when implementing its strategies. Many people are focusing on Amazon's further development and the company does take a lot of expectations in B2C competition. The company should perfect itself and make more progress to keep the top position in the industry.

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