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報告題名：The Study of Online Bookstore – An Example of AMAZON.COM

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商學院

1 Introduction

We find a bookstore. There are 3.1 million kinds of books and 5 million of customers in this store. In such an amazing bookstore, you must drive your car to browse all of its collections in hours. It must be the Wal-Mart in bookstore industry. The bookstore opens 24 hours a day and 356 days a year. Guess what? It is Amazon.com, an online bookstore that changes the impression of bookstore in our minds.

Amazon.com started in 1995. According to the dramatically improvement of Internet and online business, Amazon.com opens a new business. Its new operating model not only changes the shopping habits of customers but also brings values to them. It also deeply changes the nature of bookstore and retail industries. Now, in its website, you can get all what you want just by "one click".

In our study, we will introduce the operating model, marketing strategy, get-big-fast strategy, and the competitions between Amazon.com, Barnes & Noble and barnesandnoble.com. We intend to find the key successful factors of the new online operating model.

2 Amazon.com's Business Model

Business model for the Internet is a frequently discussed and less understood issue. There have been many discussions about how the Internet changes the traditional business models. Generally speaking, a business model is the method of doing business by which a company can sustain itself – that is, create revenue **(ref)**. Business models have been defined and categorized in many different ways. New and interesting variations can be expected in the future. In our study, we will discuss what business model that Amazon.com belongs to. And we will classify it by two aspects: operating characteristics and target customers.

2.1 By operating characteristics

Some scholars mentioned that the basic categories of business models are to classify by operating characteristics, such as brokerage, advertising, infomediary, merchant, manufacturer (direct), affiliate, community, subscription, utility **(ref)**. Moreover, a company may combine several business models. Amazon.com is a good example. It combines three models at least: brokerage, merchant, and affiliate models.

(1) Brokerage model:

Brokers are market-makers: they bring buyers and sellers together and facilitate transactions. Brokers play a frequent role in business-to-business (B2B), business-to-consumer (B2C), or consumer-to-consumer (C2C) markets. Usually a broker charges a fee or commission for each transaction it enables. In the brokerage model, Amazon.com plays a role as "virtual marketplace (virtual mall)." It is a hosting service for online merchants that charges setup, monthly listing, and/or transaction fees. Many others also provide automated transactions and relationship marketing services. (Ex: zShops and Merchant Services at Amazon.com)

(2) Merchant model:

There are wholesalers and retailers of goods and services. Sales may be made based on list prices or through auction. In merchant model, Amazon.com plays a role as "virtual merchant (e-retailer)." It is a retail merchant that operates solely over the web. (Ex: Amazon.com sells books, DVD, electronics etc.)

(3) Affiliate model:

In contrast to the generalized portal, which seeks to drive a high volume of traffic to one site, the affiliate model provides purchasing opportunities wherever people may be surfing. It does this by offering financial incentives (in the form of a percentage of revenue) to affiliated partner sites. The affiliates provide purchase-point click-through to the merchant. It is a pay-for-performance model -- if an affiliate does not generate sales, it represents no cost to the merchant. The affiliate model is inherently well-suited to the web, which explains its popularity. Variations include, banner exchange, pay-per-click, and revenue sharing programs. (Ex: Amazon.com has a talisman-- "affiliate program.(Amazon Associates)")

2.2 By target customers

B2C e-commerce has evolved into "the use of the Internet to sell merchandise or provide services to consumers in much the same way as a store or catalog" (Price Waterhouse, 1999). The main focus has been to sell goods and services and to market to the consumer. Prior to e-commerce, business-to-consumer sales were in the form of retail stores, direct sales, and mail or phone order. E-commerce has allowed physical stores to become virtual stores with the optimal goal of selling goods and services and marketing to the consumer (Price Waterhouse, 1999).

Amazon.com is an online store to sell its merchandise, books etc, to consumers through the Internet. So Amazon.com belongs to B2C. Implemented effectively, B2C e-commerce has provided a wealth of opportunity. Business will have the opportunity to sell their products and services 24 hours a day, to eliminate payments for retail space and staff, and to increase market share. According to Korper and Ellis (2000), the most significant advantages have been "higher visibility, branding opportunities, direct revenue generation, attraction of new customers and world-wide exposure of the business."

Of course, B2C e-commerce market has also faced several handicapping issues including security, navigation, lack of customer service, and personalization. These areas have become of significant importance to the future success of e-commerce. Amazon.com solves these problems well. For security, the customer key in their part credit card numbers on Amazon.com's website and the remainder numbers could send by fax or phone. And next time when you go shopping at Amazon.com, you don't need to do this again because Amazon.com has "1-Click shopping" process. The way it deals with the shipping and handling is through the cooperation with the U.S. post office, Fedex, and DHL. The customer service and personalization in Amazon.com will be described in the following section, which are some of the reasons why Amazon.com is so successful.

3 Marketing strategies

In the view of marketing, Amazon.com has become a textbook example of how an online retailer has successfully marketed its products and services. Companies around the world are trying to understand Amazon's business model to gain a better insight into the world of e-commerce. One industry expert said (Williamson, 1999), "what makes Amazon.com a marketing success, and so maddeningly difficult for others to emulate, is its dogged determination to make the things it does so smart and so obviously right that it seems like they were conjured up effortlessly. What Amazon understands perhaps better than any other marketer-online or offline- is that marketing is not just great ideas. It is execution, and what Amazon works hardest at is execution."

Amazon's huge marketing success did not come from a "huge" budget. According to Williamson, 1999, Amazon.com had planned to spend a little less than $75 million on marketing for the 2000 fiscal years, still peanuts compared with offline marketers and even other dot-coms. Those companies had planned to spend $90 million on marketing in 2000. Amazon.com is successful as a marketer by continually enhancing its services with little innovations and, most important, by executing the details, not by huge marketing budget. The following were some of the key marketing strategies of Amazon.com.

3.1 Pricing

Amazon.com once said that it is the biggest company that offer biggest discount. There are thousand and million books have sales discounts on Amazon's web site. Indeed, eliminating the exploitation of middle business, Amazon can offer lower price than the physical stores. Not only books have sales discounts but also the other merchants. Interestingly, when Amazon pricing their merchants on the web site, they not only tell customers the discount price but also tell them how much they can save in the transaction. (Figure 1)

3.2 Sense of community

The biggest selling point and immense online popularity of Amazon may be attributed to its "sense of community" (Bannan, 2000). In 1996, 1 year after Amazon's inception, Jeff Bezos stated "we are creating a virtual community, and that is really significant, as it allows us to compete with traditional bookstores" (Bernstein, 1996). The function of Amazon's community is to create mutual interaction. For example, Amazon's web site allowed its customers to submit their opinions about books and to award it anywhere from one to five rating stars (see Figure 2). Besides, another reason that people come to Amazon' web site is to read the "Reader Review." Some of them will post their opinions on the web site and this action will attract more people to come to Amazon. Frankly speaking, the Reader Review is more positive than negative. (Figuer2)

3.3 Personalization and customer services

Personalization is one of most important issue when marketing on the web. Through personalization, the environment of the web site will be customized by made a home page for the visitor. This allows the visitors to make the site become to their site by their ideas. According to Korper and Ellis (2000), "personalizing your web site means leading your customer to the appropriate information with minimal effort." Amazon.com used the personalization to build and enhance its virtual community. Once you become a member of Amazon.com, it will remember your account and your name. It will remember what a customer has bought and will send customer email notices when new related books are published in a customer's subject area, by their favorite authors, or when the next books in the series will be available. No physical bookstore has been able to do this for their repeat customers.

3.4 Words of mouth

Due to the words of mouth marketing, personalization and excellent customer focus are successful. In the network, words of mouth are more powerful than physical world. According to Jeff Bezos, "in the real world, if you were offend one customer, he or she would told to five friends; if you were disappointed one customer in the internet, he or she would told to five thousand or fifty thousand friends." Words of mouth effect are significantly strong. In addition, Amazon has received hundreds of emails every day from customers stating how satisfied and happy they were with their shopping experiences at Amazon. The satisfied customers also have told each other about their shopping experiences. As a result, words about the virtual bookstore have been circulating on the Internet without much effort on Amazon's part (Bernstein, 1996).

3.5 Associates program

In 1996, Amazon.com innovated a referral-paying program to web sites that would link the customers to Amazon's site to buy books. The name of this program was Amazon.com Associates. About eight hundred web sites immediately became a member of this program. The idea of this marketing method was to pay an 8% referral fee to each site that would send a customer to Amazon's site. The referral fee was only paid when the customer bought a book from Amazon. Program members came from portals such as yahoo.com and altavista.com, and software companies like Intuit. Few years latter, the program has flourished and diversified into other areas of service, such as music, videos and toys etc. Through Associates program, Amazon not only increased sales but also expanded their visibility.

3.6 Overall marketing package

Amazon.com executes the marketing strategies in detail and then combines them together becoming overall marketing package. A shopping experience at Amazon.com is always completely satisfying. Amazon.com has lived up to this name.

4 Get-Big-Fast

Many Internet retailers have pursued Gte-Big-Fast (GBF) strategies. Amazon.com had rapid growth during three years. Many firms stumbled when they grew so rapidly that they were unable to fulfill orders or provide quality service. The popularity of the GBF strategy followed growing awareness of positive feedbacks as sources of competitive advantage. These positive feedbacks include network effects, scale economies, learning curves, standards formation and the accumulation of complementary assets (Sterman 2000). Retention rate is a key factor, too. Firms should pursue an aggressive strategy in which they seek to grow as rapidly as possible and preempt their rivals. Amazon.com's tactics include pricing low and rapidly expanding capacity, advertising heavily, and alliances to build market clout with suppliers and workers and to deter entry of new players (Fudenberg and Tirole 1983; Spence 1981; Tirole 1990). We elaborate the key factors below, including network effect, scale economies, and customer retention rate.

4.1 Network effect

Network effects occur when the adoption of a product or service by a new customer increases the value of that product or service for customers already using it (Thomas R. Eisenmann, 2002). Bezos said that if you shopped in a physical store and had an unhappy experience in that store, you could talk to your friends but no more than six. If you buy a book on the Internet and feel the service was good, like words of mouth effect and reader review, you just send e-mail to more than six thousand people. As users beget users, the first mover may develop an unassailable lead.

4.2 Scale economies

Companies benefit from scale economies when they can generate more revenue per user than smaller competitors, and when they can spread fixed costs over a growing revenue base. Strong scale economies promote a winner-take-all dynamic: if the market leader has a superior cost structure, that company can reduce its prices or invest in superior service or features and thereby increase its lead (Thomas R. Eisenmann, 2002). Its network effects are strong, so it can attract many new customers.

Volume growth does yield some cost savings for access providers: It increases their negotiating leverage when purchasing equipment, telecommunications services, and other services. Volume growth also allows providers to concentrate telecommunications traffic onto higher bandwidth lines, which tend to have a much lower cost per Mbps transferred, and leverages the fixed cost elements of call center operations (these constitute a small share of total call center costs) and, more notably, administrative functions.

4.3 Customer retention

The payoff for GBF strategies improves when customer retention rates are high, especially when a market is young and has many first-time users. If customers can be “locked in” before they sample a competitor’s service, a first mover may cement its lead. Retention rates tend to be high in the face of strong network effects. Other factors can also promote customers incur when they switch Internet service providers and must obtain a new e-mail address, or when they switch online brokers and must transfer funds between accounts. Amazon.com is the first one that sale books on the Internet, it got the first mover advantage. It sold books over one hundred sixty countries, so it got the scale economies. Amazon.com provides additional values to their customers, like reader review, recommendation center, personal web page, and many services that customers would like to visit Amazon.com again.

The greater the growth, the greater the opportunities to make the system more efficient. Bezos believed that Amazon.com had to grow as quickly as possible before the competition would realize what was happening. Amazon.com has a core belief that as it increased the number of customers, costs would not increase. Unlike a brick-and-mortar store, a Web site was inexpensive to build. The external infrastructure already existed in the form of customers' personal computers and connections to the Internet, enabling the company to reach a worldwide audience from one central location. With many of its costs already fixed, the company could generate cash through sales that would help offset cash used for operating expenses. Amazon.com would need more cash to invest in systems and services, such as branding, co-marketing, enhanced product features, and customer service. Finally, Bezos knew that by being able to keep track of the purchasing patterns of online consumers, he could provide a unique level of personalized service as well as better anticipate customer demand for products.

In order to increase the market shares, first, Bezos needs money. Bezos had a burning passion, a raw intelligence and his background that some investors had want to invest him. Then, Bezos tried to alliance with other website. It is one way to increase the company’s scale and create the scale economics. You have more affiliates; you can create more customer values. At the same time, Amazon.com also merged other companies expand its business. They felt that they had already established a relationship with the customer with books. Now, they want customers to buy everything else from them. The spectacular success of early e-commerce entrants like Amazon.com demonstrated for many the wisdom of the GBF strategy, unleashing a rush to be the first to launch and dominate dozens of other segments, from pet supplies to funeral services.

Expanding into other products would allow the company to spread these fixed costs. When Amazon.com opens a new category, it is basically the same software. It still has the same brand name and infrastructure. So it is very low cost to open a new category. There services have diversification. Amazon.com spends a lot of money to increase the market share. They get the network effect, scale economics, and retention rates. Alliance makes them have advantage from other websites. Those websites also get benefit from them. So Amazon.com has brand visibility.

5 The war between Amazon.com, Barnes & Noble and barnesandnoble.com

In this section, we will introduce the competition between Amazon.com, Barnes & Noble and barnesandnoble.com. In fact, it is hard to say that who will be the winner. We emphasize on the operating model.

5.1 Amazon.com vs. Barnes & Noble

Before Amazon.com run its website initially, Barnes & Noble has already been the biggest bookstore in U.S. It has run one hundred years, own one thousand branches including 4 hundred “super bookstores” and about 25 thousand employees. It also run the publish business, print business and catalog business for books. It also was excellent in its profit numbers, and keeps growing. Therefore, Barnes & Noble is a very good company in bookstore industry.

Both of Amazon.com and Barnes & Noble sell books, they become the face-to-face enemies to each other. However, the operating model of Amazon.com is very different from that of Barnes & Noble. The barrier, accumulative know-how of bookstore, scale of economic and well brand image which was conducted for a long time by Barnes & Noble almost can not work to fight. Amazon.com has different way to create value for customers.

In customer profit perspective, since Amazon.com creates much value for customers, the advantages, spacious consuming environment, well taste café shop, touch and browse objectives and own the product by paying immediately which are not be imitated and learned. From income perspective, Amazon.com provides more discount than Barnes & Noble. From cost perspective, comparing with Barnes & Noble, even through that Amazon.com have more cash flow by cutting the inventory, store rent and personnel cost. It also has to spend more to construct their marketing resource like brand.

We believe that the virtual bookstore and physical bookstore provide different value and profit for customer. Customers can choose proper consuming way what they mostly want by their demand and different situation. To compare the competition between Amazon.com and Barnes & Noble, we think that each operating model can provide different values to customers and they should survive together, it means that the virtual bookstore maybe never replace the physical bookstore completely.

5.2 Amazon.com vs. barnesandnoble.com

Even through the virtual bookstore and physical bookstore attract different customers, depending on different customers' different needs. The rapid growth of online bookstore also eats the market share in book selling industry. It still directly attacks the profit base of Barnes & Noble. In such circumstance, Barnes & Noble create their own website which is called barnesandnoble.com to fight with Amazon.com directly. The service which barnesandnoble.com provided is very similar with Amazon.com. The feeling and impression that barnesandnoble.com showed is also very similar with Amazon.com. It also provides 30% discount to attract customers. Even the "The Amazon Associates" system also was created as "The Affiliate Network" system. The operating model of barnesandnoble.com is almost the same as that of Amazon.com's in the beginning.

According to the first mover advantage of Amazon.com, there are some barriers which affect cost, customers and income of barnesandnoble.com. For example, barnesandnoble.com did not provide the 1-Click Shopping. They also spent much to pursue the well reputation which Amazon.com has established. However, the experience of true bookstore business seems to provide barnesandnoble.com some resources to break such barriers. Therefore, some analyst also raised some questions about that weather the company meet some trouble when they operating online and offline at the same time.

(1) First mover advantages

1. Amazon.com gets profits from its community; such community builds high customers royalty. If barnesandnoble.com wants seek more profit from conducting their community, it should input more resources to improve it.

2. Before barnesandnoble.com startup, Amazon.com has been famous by its brand and reputation, since Barnes & Noble also has great reputation in bookstore industry, but how to attract the online customers is an important question they meet. We believe that the excellent reputation and brand of Amazon.com may be the great barrier to barnesandnoble.com and other late movers. However, the switch cost of customer is also very low in online business. How to keep improve service is a key to save their customer base.

(2) Weaker first mover advantage

1. In order to imitate Amazon.com's "1-Click shopping", barnesandnoble.com creates the "Barnes and Noble Express Lane" which was accused illegal imitation by Amazon.com. Then they created the "Express Checkout" system, resolving such legal problem by using two-click system.

2. Many industry analysts believed that excellent employees are also an important barrier between Amazon.com and barnesandnoble.com. We believe that barnesandnoble.com is able to find excellent talent to improve their business.

3. Because of the effects of economic of scale is very strong in online bookstore industry, the cost advantage from huge operating scale that Amazon.com established causes barriers to other online bookstores. Barnesandnoble.com can tolerate higher cost by Barnes & Noble's experience and resources when startup their online business. Another important point is that Barnes & Noble is the biggest physical bookstore in U.S., it has aggressive budgeting power which also makes barnesandnoble.com share cost down effect and price advantage.

4. In the short run, Amazon.com's online selling experience and know-how may be an advantage. Because of barnesandnobel.com also an experienced book seller, in the long run, when barnesandnobel.com familiarizes with online operating model, such advantages may disappear and never be a barrier.

5. Amazon.com's value chain becomes a combination of activities including low price, famous brand and website, high customer royalty and rapidly growth. Such special value system may become an effective barrier. When barnesandnoble.com imitate Amazon.com's operating model may meet some trade-off trouble. When barnesandnoble.com combines with the resources and experience of Barnes & Noble, some scholars also believe that companies run the business online and offline at the same time may be have more profits and advantages.

In the first half of 1998, Amazon.com's profit is nine times to barnesandnoble.com's. Until now, Amazon.com is still the biggest online bookstore. We believe that the success may come from such barriers we talked about, especially the first mover advantages.

We believe that the main reason of barnesandnoble.com's failure is that they just imitated, which makes them restricted by Amazon.com's barriers of first mover advantage. They should build their own operating model and provide different values to attract customers. How to combine their resources from Barnes & Noble and construct their own online brand and reputation may be a good solution for their competition.

6 Financial Statement and analysis

Amazon.com, Inc. (NASDAQ: AMZN)

Company Type	Public (NASDAQ: AMZN)
Fiscal Year-End	December
2004 Sales (mil.)	6,921.1
1-Year Sales Growth	31.5%
2004 Net Income (mil.)	588.5

1-Year Net Income Growth	1,567.1%
2004 Employees	9,000
1-Year Employee Growth	15.4%

Barnes & Noble, Inc. (NYSE: BKS)

Company Type	Public (NYSE: BKS)
Fiscal Year-End	January
2005 Sales (mil.)	4,873.6
1-Year Sales Growth	(18.1%)
2005 Net Income (mil.)	143.4
1-Year Net Income Growth	(5.6%)
2005 Employees	42,000
1-Year Employee Growth	(2.3%)

From these two financial statements, we can get some information.

1. Sales: Amazon.com > B&N
2. Net Income: Amazon.com > B&N
3. Employees: Amazon.com < B&N

More sales mean more revenues, and less employees mean less cost. Amazon.com is definitely in both situations. And it means that Amazon.com earns more than its major competitor—B&N. We all know that according to RBV, the firm's major objective is to get "superior financial performance." So we can say that Amazon.com is successful today. Moreover, according to these high growth rates we can expect that the Amazon.com is stepping into its success in the future!

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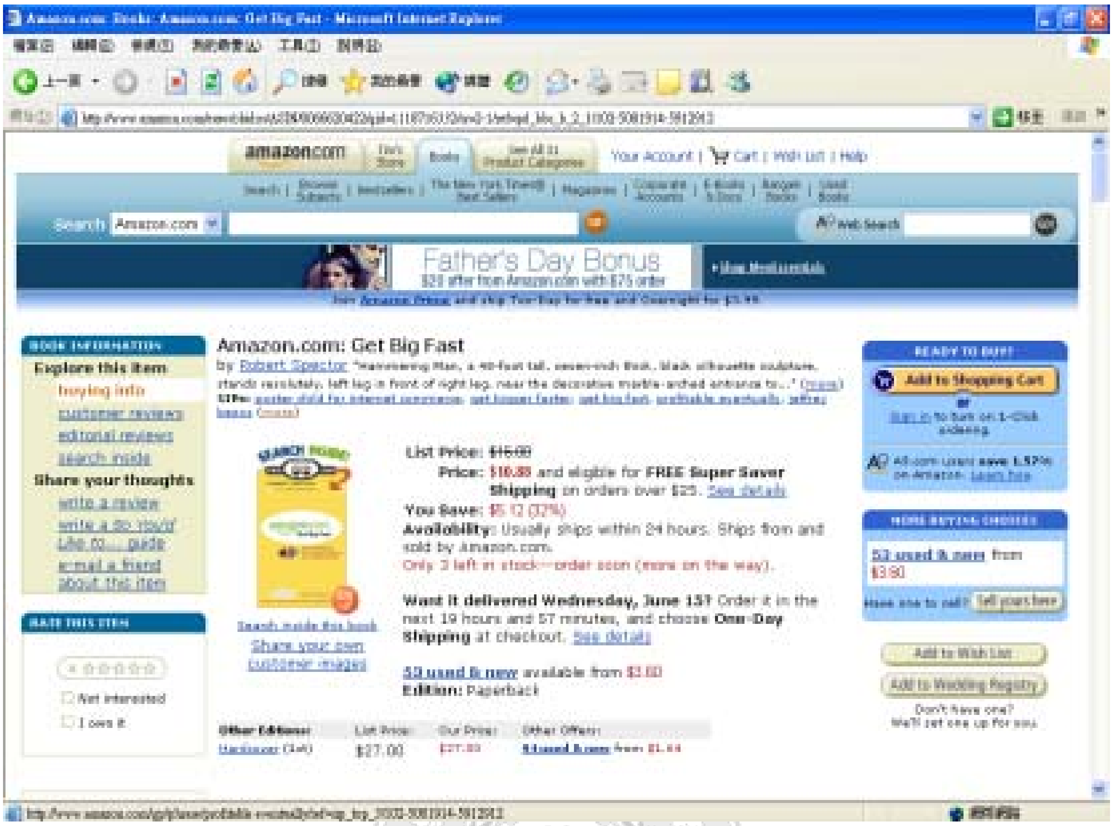

Figure 1. Money saving by Amazon.com

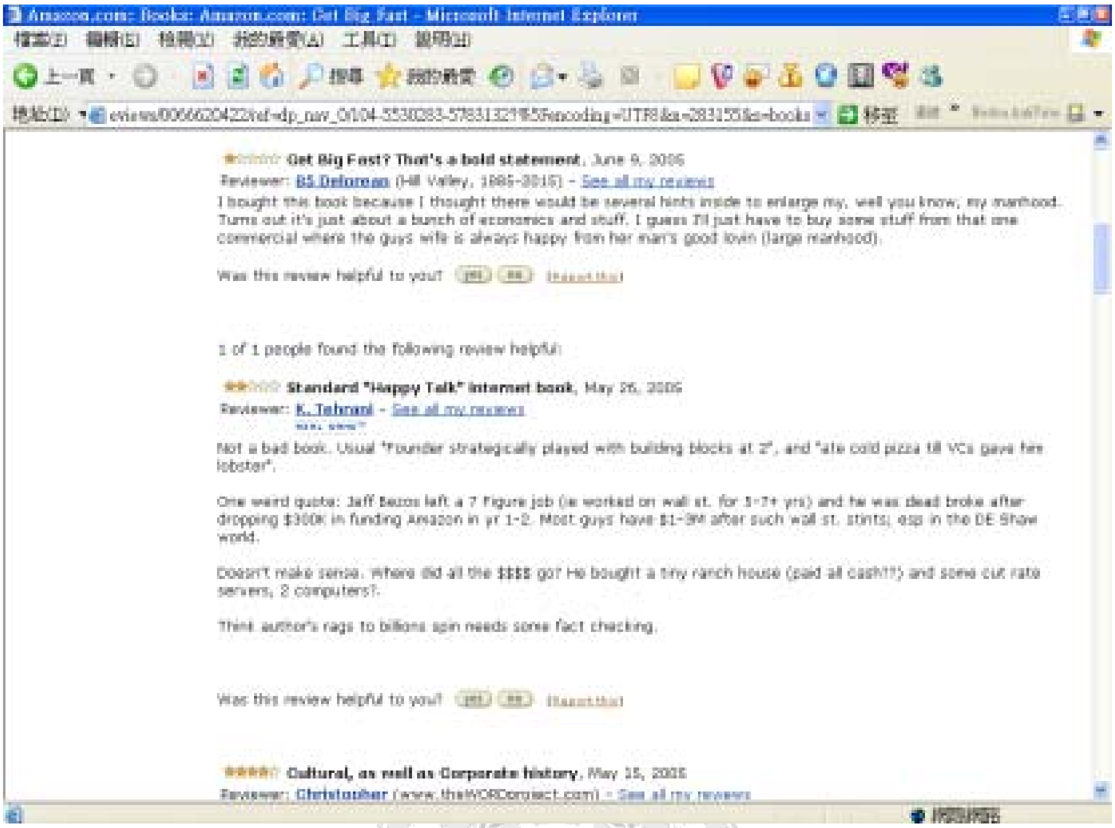

Figure 2. Book rating in Amazon.com