

# The External and Internal Environment Analysis of Amazon

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**Abstract.** This comprehensive report delves into Amazon's intricate ecosystem by scrutinizing its internal and external dynamics, focusing on strengths, future risks, and potential developments. The study meticulously examines the advantages that Amazon's various strengths currently confer upon the company, while also highlighting the looming threats posed by formidable competitors such as Walmart, Alibaba Group, and Jingdong. To offer a comprehensive analysis, the paper dissects Amazon's strengths and weaknesses across multiple dimensions. This includes an exploration of the services Amazon offers to both suppliers and consumers, with a particular focus on the significance of shipping services and the impact of the ubiquitous Prime membership. The report also delves into the threats posed by competitors, both within the retail and e-commerce sectors, which pose a constant challenge to Amazon's dominance. Moreover, this paper takes an in-depth look at Amazon's internal strengths, including its impressive profitability and robust brand reputation, and contrasts them with the inherent risks Amazon faces, such as potential revenue slowdowns and intensifying competition. By examining these factors comprehensively, this report provides a valuable insight into Amazon's current standing and its future trajectory in a highly dynamic and competitive market landscape.

**Keywords:** Amazon; External Competitors; Internal Operation; Strategy.

## 1. Introduction

Amazon is the world's largest online retailer and a well-known provider of cloud services [1]. Headquartered in Seattle, it has independent web and software development centers, service centers and data centers around the world. It is an internet-based business that has a huge amount of data and information to help Amazon's headquarters. A web-based company providing artificial intelligence, digital streaming, cloud computing and e-commerce services to customers. Amazon is now one of the top five companies in the US technology industry, along with Google, Microsoft, Facebook and Apple [2]. Amazon was originally founded in 1994 in the United States by Jeff Bezos as an e-commerce networking company. It mainly provides online book sales services to its customers. Because the size of the book market is very large, so Amazon used huge losses to establish a huge advantage in the data network, and has a considerable business scale, providing a good online book buying service for the masses. The subsequent development of the network allowed Amazon to see a new path of technological development. Thus, Amazon decided to provide consumers with more goods, from the online book retailing market to various categories of goods. Within a year or so, Amazon launched its music store and became the largest online retailer of music products. Then Amazon began to expand into all kinds of products. It claimed to be the largest online retailer [3].

Amazon started to develop into a service-oriented company with customer-centric goals. In order to provide better service to customers, Amazon introduced various services, including: web services, which allowed customers to buy items and place orders on mobile phones and computers using an open platform. prime services, which introduced membership cards to provide benefits to people who regularly bought things from Amazon. Logistics outsourcing services, where third-party vendors provide delivery services to customers. Amazon's growth and the gradual introduction of these services over the years has made it a full-service provider and online retailer. Currently, Amazon has a wide range of products and a huge inventory where consumers can buy anything they want, including gourmet books, electronics, furniture, toys, clothing and a variety of beauty products [1]. Amazon's platform has grown to account for 58% of Amazon's total sales since it first started selling on third-party platforms in 1999. And Amazon's stock has been on an upward trajectory since its

inception [1]. However, according to a press release published on Amazon's investor relations website, while Amazon's sales grew significantly in 1Q 2022, its operating income declined. Compared to sales in Q1 2021, sales in 2022 grew by 7%. However, operating income fell from \$8.9 billion in 2021 to \$3.7 billion in 2022 [3].

## 2. Amazon's Services for Suppliers

**Automated warehouse management services:** Amazon uses barcode scanning technology for automated warehouse management. Barcodes help Amazon staff track the location of manufactured items when receiving products in the warehouse, check the stock level of items, and allow robots to place items in the specified location, ensuring the accuracy of orders. Warehouse automation improves the flexibility of the supply chain compared to traditional warehouses. It is the digitization of Amazon's warehouses that allows Amazon to efficiently move large quantities of goods between different locations. The high quality, real-time inventory provided by barcodes allows Amazon to respond quickly and accurately to fluctuations in supply and demand. Barcodes are also the foundation of Amazon's digitally managed warehouses [4].

**Merchandising services:** Amazon's merchandising services benefit from its strong e-commerce presence, which helps consumers find the products they want quickly in a digital environment. It also helps people who want to sell their products online to reach customers through Amazon. Amazon serves as a large marketplace with a large customer base, allowing countless third-party sellers and buyers to connect. Sellers can choose from two selling services offered by Amazon.com, one of which charges a \$0.99 per item service fee. One is to pay \$39.99 per month and have access to sales reports and other features of the selling tools to find more customers on Amazon [2].

**Shipping services:** Amazon offers two shipping services to sellers. The first is for the seller on Amazon to ship the item to the customer themselves, which saves the seller the cost of shipping on Amazon, but it requires the seller to pack and ship the item themselves, which takes a certain amount of time. The second is to have Amazon help sellers with shipping, which means that Amazon employees do the work such as packing and labelling, and deliver the goods to the address specified by the customer [2]. Amazon also has very large warehouses. Sellers can store their goods in the warehouse and Amazon will deliver the seller's goods. Customers can also take advantage of Amazon's shipping and returns services. Amazon's fulfilment center will market this inventory to consumers on its website. Sellers can also take advantage of Amazon's low-cost shipping services and Prime membership.

**Offline shop selling services:** Amazon's own bricks-and-mortar stores and its Whole Foods supermarket chain total several hundred offline stores. Amazon also allows offline shops to sell their own products on Amazon's website. In addition, because Amazon has its warehouses in different locations, customers can place their orders on the Amazon website and have them delivered from Amazon's local warehouses. This allows customers to place orders for items that can be picked up at their local store or delivered within a few days [5].

**Amazon tools for sellers:** Amazon's tools for sellers have a wide range of features and can be used by sellers to do less work to sell more effectively, increase the success of their business and find customers for their business.

**Amazon Seller App:** This is a free tool that helps new sellers understand the list price of an item to help sellers better understand how much they should charge for the products they sell [6]. In addition, Sellzone is a toolkit that helps sellers solve selling problems by helping them understand and evaluate traffic sources for their products on Amazon [6].

## 3. Amazon's Services for Consumers

**Product search services:** As an online retailer, Amazon has a very strong supplier and shopping platform. Amazon provides customers with an accurate keyword search service so that they can

quickly and accurately find the products they want. This is due to their technological advancement, which supports the profitability of Amazon's online platform. In addition, customers can track their orders in real time through the Amazon programmed and know exactly when their delivery will arrive [6].

**Real-time customer service:** Amazon also offers customer service for consumers, allowing them to easily connect with customer service to ask questions while using the app. General questions are answered by bots, and detailed questions are answered by human service agents to help solve problems consumers encounter while shopping in detail [6].

**Give customers a personalized experience:** Amazon is making its customers like Amazon more by providing them with personalized services. Unlike other service industries, Amazon focuses more on the customer experience and works to reduce the customer's workload. It allows customers to solve their problems quickly to create an easy and enjoyable shopping experience. Reducing the amount of time customers spend on problems not only makes life easier for Amazon's customer service representatives, but also shows that Amazon values its customers' time. Identifying potentially significant problems through early issues is critical to helping Amazon identify and resolve problems and improve the overall customer experience [7].

**Prime membership service:** Amazon's membership service was launched in 2005 and requires consumers to pay \$14.99 per month or \$139 per year. First-time customers can try Amazon's services for free for 30 days. The main service offered to Amazon Prime members is free shipping, which provides free one-day shipping on some items with no minimum purchase requirement. Amazon prime members receive all items ordered on Amazon at the same time on the same day of the week [8].

(1) **Discount service:** consumers who join the Amazon membership programmed can receive discounts ranging from 5% to 15% on their purchases, and may receive even more discounts on selected items [9].

(2) **Trial service:** Amazon members have seven days to try an item at home before buying it and can return it free of charge [9].

(3) **Reading service:** Amazon offers members over 3,000 e-books and other reading materials. Whether they use Kindle or other applications to read books, members can download new books in advance for free [9].

(4) **Game service:** Amazon members can play some games for free every month on prime game or subscribe to some live channels [9].

(5) **Gaming service:** Amazon members can play a few games for free each month on prime gaming or subscribe to a few live channels [9].

(6) **Member sharing service:** Amazon allows a family to use Prime member services at the same time, and enjoy the benefits of Prime. Including teens and tweens can also use prime for shopping [9].

(7) **Music service:** Prime members can also use the music service offered by Amazon, which is ad-free and has a blog with more than 100 million songs and a large number of playlists that can be used without a separate subscription [9].

**Amazon Payments service:** Amazon Payments is an online transaction platform that allows users with an Amazon account to pay sellers online using their Amazon account. Amazon Payments requires only a few steps to check out quickly and securely, improving the customer experience [10].

**Online stores:** As technology has allowed e-commerce to grow rapidly in recent years, online stores now account for 20% of total retail sales in the US. With products that are not available anywhere else. Some of the online boutiques only offer unique products that are not available on Amazon, giving them a unique advantage [11].

Although eBay Outside has seen a gradual decline in revenue in recent years, it still has a revenue of \$9.89 billion in 2022. On eBay Outside sellers can list upcoming products for sale while buyers can find them on the marketplace. The biggest difference between it and the products offered by

Amazon sellers is that sellers on eBay can auction products or use a fixed rate. Whereas Amazon does not offer auction sales [11].

Walmart is one of the oldest of Amazon's main competitors. Together, Walmart and Amazon are known as the two largest retailers in the United States and have always been in competition. Walmart and Amazon sell to the same target group of customers, and although Walmart is 30 years older than Amazon, Walmart only dominates in the sales arena because Amazon is much better in the online arena. In 2022, Walmart's total revenue will reach \$573 billion, surpassing Amazon's \$73 billion, but they are still competing in all aspects, including other aspects such as innovative digital growth logistics [11]. Alibaba Group sells mainly in China, while Amazon is based in the United States. But Alibaba has many subsidiaries, including Taobao and Tmall. And all its subsidiaries compete with Amazon in different ways. Taobao and Tmall are e-commerce companies that mainly sell low-cost apparel and accessories, but they also sell many computers hardware-related items and other types of gadgets. The main competition between Amazon and Alibaba is in web services, because Alibaba's cloud computing business will generate \$11.7 billion in revenue in 2022, which is a very big threat to Amazon's web services [11]. Jingdong is also one of the main competitors of Amazon, it is another e-commerce sales website in China. It is not only a competitor of Amazon, but also a direct competitor of Alibaba Group. This is because they both belong to e-commerce companies and sell very similar types of products. Where Jingdong differs from Amazon is that it can buy items in bulk, which Amazon cannot. Jingdong dominates logistics in China because it has a self-managed service that allows consumers to order on the same day and receive their goods the next day. Thus, in the 3rd progress of 2022, Jingdong's revenue reached \$34.2 billion [11].

#### **4. Competitors in Web Services**

Amazon's competitors on web services include the four main rivals Microsoft, Google, Facebook and Apple. Microsoft as a leader in technology it is similar to Amazon in that they both offer cloud services but Microsoft also offers technology solutions and helps companies scale up as well as develop technologies such as it [12]. Google provides hosting services on the web, including computing solutions for storage problems and applications. Although Google's shopping service also allows customers to compare prices from different suppliers when searching for goods, Amazon still dominates the market for goods research [12]. In the field of advertising, Amazon and Facebook are competitors as Amazon is grabbing Facebook's advertising revenue on various social media sites [12]. Amazon and Apple are competitors because in the services space, both Apple and Amazon have launched subscription services in music and blogging. This makes them competitive [12]. The above are Amazon's competitors in the field of online services, although Amazon remains at the leader in the field of e-commerce. However, from a global perspective, other companies are improving their shopping methods to safeguard the shopping experience of consumers online as a way to compete with Amazon [12].

#### **5. Amazon's Internal Strengths**

Amazon uses a functional organizational structure to achieve control over its global operations, but the company's structure is subject to change and adjustment as the market gradually expands. The advantage of this is that it can respond to changes in the international market in real time, and Amazon's divisions can quickly and efficiently implement the management instructions from Amazon's headquarters to ensure the proper distribution of the retail business. Such a structure improves the flexibility of the company and the responsiveness of the division [13].

One of Amazon's strengths is its operational management of inventory. By maintaining optimal inventory levels, ordering and stocking ensures that the company's goods can be shipped immediately to the customer's order address. In addition, Amazon's employees are trained in warehouse

management. They are guaranteed to maximize the speed at which orders are dispatched through the database. This ensures that Amazon's costs are minimized while still meeting market demand [14].

After Amazon posted an operating loss of more than \$10 billion in its retail business in 2022, management focused more on generating revenue and growth by cutting costs. In the early 2023 earnings report, the cost-cutting measures resulted in increased profits. Over the past few years, Amazon has grown its business in a number of areas and now it's trying to turn its previous investments into a profit driver by using its vast logistics network to achieve greater efficiency and asset utilization. This could reduce Amazon's costs and increase profits [15].

Amazon lets consumers know that it is the most customer-centric company in the world through its commitment. Serving different customer groups allows consumers to have a good brand impression of Amazon. Amazon focuses on providing consumers with both online and bricks-and-mortar services. By selling different types of products, consumers can see Amazon products in different areas. This approach can give customers a good impression when Amazon fulfills their orders and Amazon has a good range of products in different areas. It can also help consumers learn more about Amazon's products. In addition, the membership service also helps consumers to get free delivery, and Amazon's logistics are very efficient compared to other companies. This is one of the reasons why Amazon.com can attract customers and leave a good brand impression [16].

## 6. Risks of Amazon

The risks of Amazon include uncertainty in profit growth, slowdown in revenue growth and competition.

**Profit growth uncertainty:** Before 2019, Amazon.com's highest full-year net profit margin is about 3.7%. However, after 2019, Amazon's profit margin reaches about 4%. This is due to Amazon management's investment in infrastructure expansion and research and development [17].

**Revenue growth has slowed down:** Although Amazon has had strong growth over time, as evidenced by the fact that its annual revenue rarely falls below 20%. However, after 2010 Amazon's average growth rate began to decline. The reason for this is that e-commerce only accounts for 12% of the retail market, so changes in the price of online services in the retail market and an increase in the number of competitors will have an impact on the rate of sales growth, which will lead to a reduction in Amazon's upside. For investors, the slowdown in Amazon's revenue growth is also one of the risks that they should be concerned about [17].

**Competition:** The most significant operational risk for Amazon is competition as there should be many competitors in the retail industry including rivals such as Walmart, Alibaba Group and Jingdong. They all have to respond to the changing market and the ever-changing preferences of consumers. The price and quality of goods is also a point of competition between companies. Amazon has a huge marketplace with good delivery services. However, as more and more retailers enter the market, the profit margin that Amazon can make will gradually decrease [17].

## 7. Conclusion

In conclusion, Amazon's strategic focus on developing a highly skilled and innovative workforce, coupled with its commitment to embracing cutting-edge technology, demonstrates its dedication to shaping the future of the retail industry. Amazon's "Career Choice" program and investment in employee education underscore its commitment to nurturing the talents needed to tackle evolving challenges both within and beyond the company. By providing opportunities for employees to acquire relevant technical skills, Amazon is poised to continuously innovate and enhance the customer shopping experience. While Amazon has a substantial in-house engineering team dedicated to advancing AI, the company recognizes that technology's rapid evolution is key to its efficiency. Streamlining processes for sellers through applications like Flex and harnessing the potential of robotics demonstrate Amazon's relentless pursuit of operational excellence. Importantly, Amazon

contends that automation will not diminish job demand; rather, it will create new opportunities, increase productivity, and stimulate consumer demand, thereby bolstering the broader economy. The company's shift towards prioritizing profit growth in its retail business is a strategic response to previous operating losses. Amazon's cost-reduction initiatives and ongoing investments in various technology sectors, such as autonomous driving, satellites, and healthcare, reflect its determination to enhance profitability while retaining its status as a retail giant. In summary, Amazon's holistic approach, combining a skilled workforce, technological innovation, and profit-driven strategies, positions it to continue shaping the future of retail and beyond.

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