Analysis of Amazon's Acquisitions with E-Commerce

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Abstract. Amazon has become one of the most influential companies in the world mainly for its online shopping service; however, it is evident that Amazon is exploring other fields such as grocery business, streaming services, and vehicles. One of the significant methods that contributes to Amazon's rapid growth is acquiring other companies. Each acquisition made by Amazon indicates its ambition to expand the market into a new area, which furtherly enriches its brand's content. In addition, Amazon does not simply buy companies to compete with others, but it also incorporates its own advantages in e-commerce—a sophisticated platform with a large customer base. The acquisitions of Whole Foods and Metro-Goldwyn-Mayer(MGM) are two epitomes that illustrate how Amazon combines its own technology with the content of the companies it acquired to compete with others. With Amazon's powerful platform, it provides plenty of information to the customers and collects the data from them in turn, which can be applied to many areas Amazon has involved. Since people nowadays are using their devices more frequently, it increases the possibility of accessing more information, giving Amazon chances to infiltrate into their lives. As a result, the more areas Amazon reaches, the more profit it can make with its e-commerce.

Keywords: Amazon; MGM; Whole Foods; acquisition; E-Commerce.

1. Introduction

In terms of e-commerce, Amazon has dominated the area for years ever since the prevalence of electronic devices. Amazon's platform does not only provide the customers with convenience in buying what they want, but also benefits the suppliers around the world. However, the success of Amazon can not only be ascribed to its platform. For the e-commerce industry, the logistics service is considered as one of the most expensive operations, and thus whoever reduces the cost of it may take advantage of it to make more profit. In most cases, either the platform or the suppliers are responsible for logistics service [1]. Amazon has focused on its own logistics and distribution. By 2001, Amazon had 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 the United Kingdom, France, Germany, and Japan. By 2018, Amazon had operated an aggregate of over 138,825,900 active square feet of warehouse spaces in 28 states throughout the United States and around the world [2]. Such an enormous amount of warehouses enable Amazon to deliver the packages as soon as possible, which not only satisfies the customers, but also decreases its own cost.

Whole Foods has dedicated itself in the grocery business for decades, and it is known for its high-quality organic foods. Although it was famous for a while, once its competitors figured out what it was doing, they lowered their prices to attract more customers. Whole Foods apparently could not fight the price war because it could not afford the cost of its organic foods if it did so. Besides, Traditional grocery suppliers like Safeway and Kroger had broader scale over the country, and they sold cheaper organic food to the customers, achieving the goals of efficiency and convenience [3]. Whole Foods was in a dilemma that hampered it from moving forward. What finally caused Whole Foods to lose was the event that happened in 2015 in which it was discovered that Whole Foods was mislabeling meats and products, which was considered cheating on its customers. The loss of trust pushed Whole Foods at the edge of the cliff, and it was Amazon who pulled it back. In 2017, Amazon purchased the 460 stores from Whole Foods with 13.7 billion dollars [4]. Amazon's decision signals that it is entering the grocery industry, and what is so formidable for others is the combination of the products and e-commerce.

Metro-Goldwyn-Mayer Studios Inc was founded in 1924 as Marcus Loew gained control of Metro Pictures, Goldwyn Pictures, and Louis B. Mayer Pictures. MGM was known as the one of the “Big Five” film studios of Hollywood, in which it focused on feature film and television productions. The company’s golden era was from 1926 until 1959, bracketed by two productions of Ben Hur. It has many famous series franchises such as James Bond, Rocky and Creed [5]. MGM also bought television series and movies, which caused it to suffer from liabilities. The financial problem eventually reached the apex in 2010, causing MGM to go bankrupt. After the bankruptcy, MGM continued its business in television and feature film productions though its creditors were seeking chances to sell the studio. Amazon was seeking a chance to expand its market at the time, and the pandemics that happened in 2020 rendered an opportunity for it to step into the streaming service industry [6].

Amazon’s acquisitions of the two companies have several things in common: Both Whole Foods and MGM struggled in competing with their competitors; They were famous and had their well constructed products; Amazon’s platform advantages are complementary to them. Amazon’s acquisitions aimed to purchase those companies that are lacking in distribution and logistics service, which is what Amazon is adept at doing so.

The Paper mainly focuses on the following perspectives:

The Deal with Whole Foods

The Deal with MGM

Amazon’s E-Commerce

2. The Deal with Whole Foods

2.1 The Bargaining Power of Both Sides

Customers who bought Whole Foods’ organic foods were forming a sense of pursuing high-quality products, and they shared attitudes and values. The factors that may influence customers’ choices include the source of the organic foods which can directly affect customers’ opinions toward the foods. So it is crucial to redefine the customers’ perception of the brand, building a trust between them [4]. However, price of the product is also an important factor that affects the customers’ decisions in which most people have inclinations to choose cheaper products if there are no distinct differences between one another. Whole Foods’ competitors can simply emulate it by supplying organic foods with relatively cheaper prices, which attracts customers from Whole Foods.

While Whole Foods had been suffering in the competition with its rivals, Amazon has already become one of the greatest retailers in terms of market capitalization [7]. It is obvious that Amazon has more bargaining power in this case, but Whole Foods had its organic foods that were well-known by people though its reputation experienced changes. In order to enter the grocery market, Amazon needs an accompanying expert to be familiar with the situations of the industry.

2.2 Advantages and Potential Risks for Both Sides

Although Whole Foods was discovered that it deceived its customers, it is remediable for it to regain its reputation after merging with Amazon. The most important factor for Whole Foods is to continue upgrading its products, delivering the highest standards of quality of all categories in each department [8]. Each brand must have its own distinctive advantages in order to survive in the market, and since Whole Foods was known for its high quality product, it should fortify this as its advantage to compete with its competitors. The main problem for Whole Foods is whether it can continue to maintain the channel and source of its organic foods, especially in such a fiercely competitive industry in which all the others may imitate Whole Foods’ business models and vie for supply chains. Another issue that might occur is whether it is innovative enough to attract more customers. Customers can easily switch to other stores that provide a variety of products that are novel to them [8].

Amazon has more local stores that are down-to-earth for customers, and those stores are easily built, which reduces the cost of infrastructures. Compared to Whole Foods, Amazon Fresh stores not only trench the cost of delivering products, but are also superior to conventional grocery stores in light of the reputational issues. For instance, customers may expect to have enjoyable experiences when they are shopping at Whole Foods, but it is less likely that they will compare Amazon Fresh stores to other grocery stores [3]. Amazon can also combine the grocery business with its Prime membership to increase its grocery market share. It is reported that 60 percent of Whole Foods shoppers have signed up for Prime Membership, and the new deal was designed to attract the remaining customers to join in as well. Prime members are able to enjoy discounts on Whole Foods' items with free delivery service [4]. One of the issues that Amazon may heed is to ensure the quality of their products, which seems to be dependent on Whole Foods. It is important to Amazon because the fame of the brand has its potential advertising values, motivating consumers to select the brand.

2.3 Amazon's Future Cooperation with Whole Foods

Amazon's move to the grocery industry implies that it plans to continue growing larger by taking market share from different areas. As long as Amazon is capable of linking its technology with the area, there is always profit for it to exploit. The acquisition of Whole Foods might just be the first step. It is a method to explore the field to figure out how the industry functions. Since the pandemics, online purchasing rate rose from 2-3 percent to 10-11 percent according to the data [3]. It is a tendency that more people are going to buy food online, which is what Amazon wants to see as it can furtherly connect with e-commerce. The mode of conventional grocery stores might change in the future from in person shopping to free delivery.

3. The Deal with MGM

3.1 The Bargaining Power of Both Sides

After MGM's bankrupcy, although it continued operating its business, the creditors had the propensity to sell it, which foreshadowed the deal with Amazon. During the pandemics, the rise of the streaming industry prompted Amazon to upgrade its Prime Video. Although Amazon had the platform and some content, it desired to furtherly attract more audience by adding more classic and famous series and movies. MGM held the rights to more than 4,000 films and 17,000 television shows including some well-known IP such as the James Bond series and Rocky, which was what Amazon seeked for [6]. Those IP held by MGM became the leverage of the acquisition, and Amazon can provide MGM with financial support in turn since MGM was struggling with its debt.

3.2 Preponderances and Problems for Amazon

Although Amazon seemed to be less competitive than those renowned tycoons such Youtube and Netflix, it actually has some advantages that are vital in the video streaming industry. Running a streaming service requires massive computational power, and Amazon Web Services (AWS) is the global leader accounting for 40.8% of the cloud computing market in 2020, followed by Microsoft (19.7%), Alibaba (9.5%), Google (6.1%), Huawei (4.2%), and others (19.8%) [6]. Amazon's competitors including Netflix are dependent on AWS even though they are competing with Amazon in the streaming service, which demonstrates that Amazon as an e-commerce company does not only rely on one or two revenue sources, but has also controlled several important technologies that would benefit it in many aspects of its business[6]. Moreover, Amazon directly and indirectly earns profits from its audience on Prime Video through e-commerce. For instance, users of Amazon's video and music streaming platforms contribute one third of the customers who buy products from the wish lists on the apps [9]. Amazon's prime day is also popular as over 70% of Amazon's customers were glad to purchase discounted products on that day [9]. Same idea can be applied to the streaming video industry, recommending products through advertisements and combining Prime Video VIP with other sale services together are ways to boom Amazon's revenue effectively. Amazon's strategy of connecting different industries is feasible under the e-commerce era because information and resources can be tied together, dragging people to explore more and spend more time and money on different things.

As an e-commerce giant, the rapid growth also brings it potential troubles. The continual vertical and horizontal integrations make Amazon so formidable that the Federal Trade Commission has already noticed and opposed its augament. It is said that Amazon uses predatory pricing and vertical integration, strategies that escape outdated interpretations of U.S. antitrust legislation based upon consumer welfare [6]. Although there were no serious problems in the short term for Amazon regarding its acquisition, there are going to be stringent investigations and opposing voices in the future as long as Amazon continues to be involved in other industries.

3.3 Future Cooperation with MGM

In spite of the profits Amazon can make from many other aspects, what truly drove Amazon to merge with MGM is because of the appealing content MGM held so far. As it is revealed by the Senior Vice President of Prime Video and Amazon Studios Mike Hopkins that "the real financial value behind this deal is the treasure trove of IP in the deep catalog that we plan to reimagine and develop together with MGM's talented team" [6]. Those amazing films and series are also considered exploitable to Amazon, in which Amazon can reimagine some of the IP to attract more audience.

There are also issues that have to be mentioned between Amazon and MGM as it comes to cooperation. MGM's team had shown the capability to produce marvelous compositions, but Amazon is apparently not adept at it, pulling out the questions for the cooperation in future. If MGM is allowed to work autonomously, how should Amazon deal with the distribution of the derivatives generated by MGM [10]? Besides, MGM has more TV shows than Amazon has acquired so far, so it remains unclear whether Amazon is going to merge with the TV section or separate from the acquisition [10].

4. Amazon's Acquisition Strategy

Amazon originated its online retailing business decades ago, which gave itself enough time to develop its own business model. As it moves to the digital age, Amazon's platform becomes an even significant factor that allows it to grow larger. By acquiring other companies from different industries, it constantly differentiates Amazon because more and more products are available on its platform, which keeps attracting customers and retaining old customers. In addition to the growth in scale of the products, the increase in its inventories makes it possible for Amazon to provide superior service to its customers, cutting its logistics costs while maintaining the efficiency of the work [11].

One of the reasons for Amazon to acquire companies is to eliminate the potential competitors who have substantial user bases to some extent and are small but promising. MGM is an example of this in which it has a certain number of users and has promising IP that can be threatful to Amazon. Through vertical integration, it maintains the dominant position of Amazon in the market. Another pattern of Amazon's acquisition is that it often seeks for valuable assets, which can be of interest to its platform [12]. Whole Foods and MGM both hold fascinating products that are compatible with Amazon's business model. However, there are two possible outcomes of the products that are generated by the target firms: it can either be preserved and upgraded by the original firm and continue to supply to the customers, or it can be discontinued by the acquirer [12]. For Amazon, it is obvious that it wants to extend the lives of its products, so Whole Foods and MGM are likely to work on their products and supply to their customers.

5. Conclusion

This paper dedicates to analyze the two acquisitions made by Amazon and illustrates how Amazon incorporates its own advantages to expand its market. Whole Foods and MGM were both legendary in their own industries for some time but then experienced predicaments that drove them down, which eventually caused them to merge with Amazon. Amazon on the other hand, has already developed its platform mode, which is well-known and dominant. The enormous and scattered inventories around the world allow it to achieve the efficiency of delivery and reduce the cost of logistics. These characteristics contribute to the success of Amazon in terms of E-commerce. Acquisitions of different companies are implicitly serving its e-commerce business model since the assets owned by the target companies are exploitable and compatible with Amazon's platform. It is also effective to maintain the market position through acquisitions as competitors are eliminated at the early stage, making Amazon a more formidable tycoon.

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