Amazon's mighty flow

In this second article in a series on how strategic vision can create competitive advantage, **Tony Grundy** looks at Amazon's success

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I first wrote about Amazon back in 2001, around the time the dotcom bubble burst and the share prices of dotcom companies collapsed. Before this, there had been a spike in the dotcom sector's share price movements reminiscent of those of railroad companies during the 19th century, the great tulip craze in Holland in the 1630s, and the South Sea Bubble in 1720.

These surges and collapses are a product of behavioural economics, where rationality goes out of the window. Amazon got caught up in this phenomenon just like the others but Amazon proved its resilience and is now awesome, albeit somewhat controversial.

Amazon is the product of American genius Jeff Bezos. Bezos had a promising career in the corporate world, but saw an opportunity to give the consumer more choice and convenience through the internet ordering of – at the time – books, and their delivery.

Back then, I thought that this was a slightly odd choice: although there was an unfulfilled need here, turning that into a healthy margin would be a challenge. So it wasn't quite so much of a surprise when Amazon's share price fell along with other dotcom companies. Much could be blamed on investors, who in economic/strategy theory could be characterised as being in the world of 'bounded rationality' (or, in everyday language, being a bit foolhardy).

Bezos had a number of ingredients of the 'cunning plan' (see my earlier articles). He offered customers a lot more choice, speed, reliability and superior customer service. He broke through what I have called the industry mindset – that is, the assumptions and the expectations of what an industry is like and how competitors behave in it.

Amazon attacked competitors in a very innovative way. Its mindset was hardly a love of books. It simply provided a way for customers to browse for, order and receive books. Indeed, while this opportunity was the one that triggered the foundation of the company's original business model, for Bezos the bigger opportunity was outside that: in retail generally.

Ultimately, Amazon had the potential to expand its value-creating activities into a network of other internet retail areas – music and films being obvious examples. And why not have a go at things like toys, electronics, bikes – you name it? The strategy was a 'cascade' of one related thing after another.

Another key ingredient of the 'cunning plan' was

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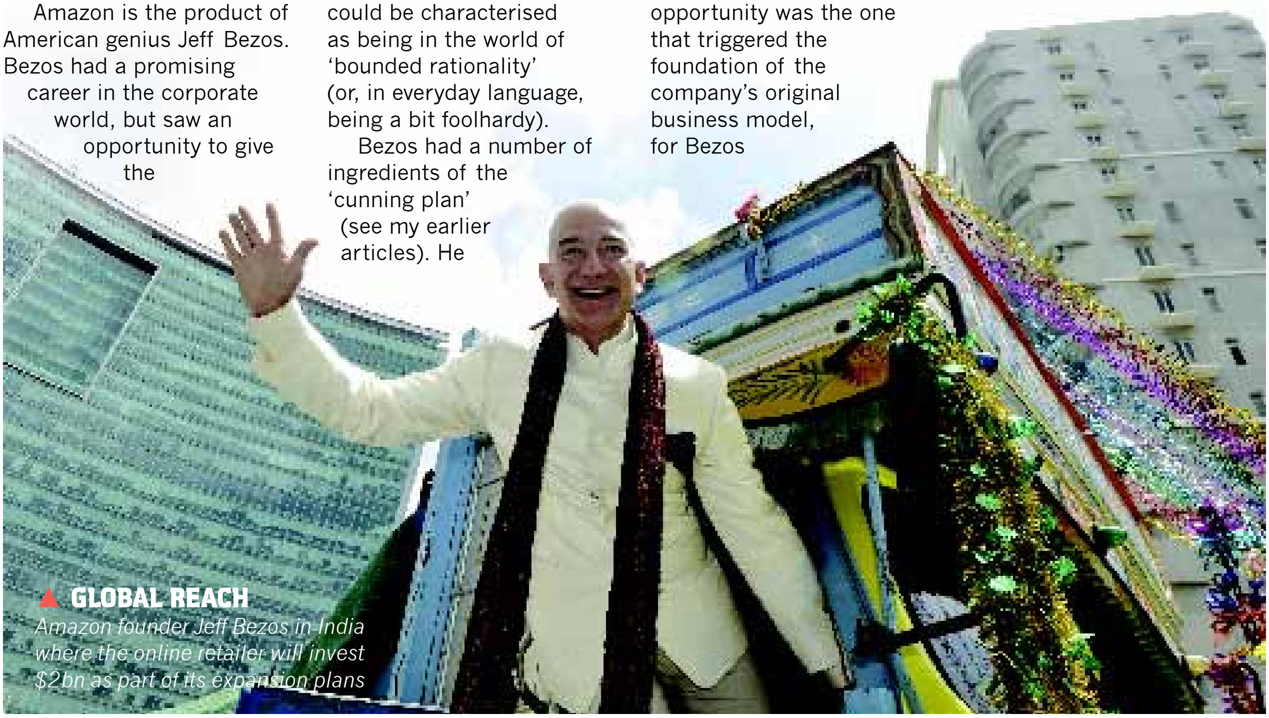

GLOBAL REACH
Amazon founder Jeff Bezos in India where the online retailer will invest $2bn as part of its expansion plans

the Amazon name, which was so very simple. Bezos spent just 10 minutes going through the dictionary and got midway through the As. Reputedly he went to his colleagues and said very simply: ‘Our name has got to be Amazon. We are going to be very big – like the Amazon river.’ He was indeed prescient – by 2013 Amazon’s sales were around $74bn with $2bn free cashflow. Very early on, Bezos had a clear if stretching strategic vision.

Amazon’s product range is incredible. I recently wanted to buy some of the ‘magic spray’ that football referees use so that I could hold it up at accounting conferences as an example of a cunning plan. I bought it quickly and easily within five minutes on Amazon – it therefore also adheres to the 34th of my 55 ways of being cunning: make what you sell as effortless as possible to buy.

Market strategy

Amazon is interesting not just because of its competitive scope, but also because of its market strategy. Michael Porter of Harvard Business School suggested in 1985 that companies need to choose not only whether to have either a broad market/product focus or a narrow one (a niche strategy), but also either a differentiation or cost leadership strategy. Otherwise you confuse both the customer and yourself, and don’t focus capital or revenue cost expenditure in the right way. Other strategists would contend that you can mix the two as a hybrid.

A differentiation strategy is where the product or service is either perceived to be, or is, of superior customer value and has a

definite price premium. A cost leadership strategy is where the price may be similar or usually lower than the competition, but costs are certainly lower.

From nearly 25 years of consulting I have found that hybrid strategies are typically hard to bring off. If you do adopt a hybrid strategy, then (a) you need to know where your main focus is, and (b) you need to ensure that you don’t undermine value creation or lower your costs through being inconsistent in your competitive style.

In Amazon’s case, the core strategy is clearly more a cost leadership one when compared with bricks and mortar retailers. Amazon has massive warehousing facilities and processing capability, which give it physical economies of scale. That in turn gives it cost advantages. But in its service it is differentiated – so it is something of a hybrid.

Amazon is ultra-keen on customer feedback, and Bezos has spread customer focus as a mantra throughout the organisation. So when my wife’s year-old Kindle suddenly stopped working and she called Amazon customer service, they immediately agreed to send her another. Delighted customers spread such feedback as I have just done. Such service differentiation doesn’t just bring loyalty but also encourages customers to buy more from Amazon.

Funerals too?

The company is venturing into some perhaps unexpected new areas (for example, by exploiting its distinctive capability in handling large amounts of data) and for new types of customer (corporates), sending a shiver down the spines of many large IT companies. In terms of strategic options, it might consider product extensions to, for example, higher-price items (cars or motorbikes?) What about services too, such as insurance, funerals and holidays?

The Amazon brand is potentially limitless. For example, could Amazon sell higher-value products, say over £1,000? And if so, could it also provide the finance? Maybe it could combine the two and become a bank. It could buy a batch of high-value products under a ‘when it’s gone, it’s gone’ model, sell it for 10% less, provide cost-effective finance and deliver it next day.

However successful you are, there is no excuse for not deploying strategic thinking to turn you from overperforming to awesome. Amazon has made some mistakes, but it is quick to learn from these and change – it really is the adaptable corporation.

So consider: what can your company learn from Amazon’s truly visionary business model? ■

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