



**FACULTAD DE CIENCIAS ECONÓMICAS Y EMPRESARIALES**

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TITULO: Amazon`s strategic analysis approaching the Spanish market

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## **EXECUTIVE SUMMARY**

Amazon.com has not stopped growing since its foundation in 1994, and has become the leading company in the world of e-commerce. Amazon emerged from a great idea of its founder Jeff Bezos, who has managed to turn an online books store into a company that is constantly thinking about its customers and trying to innovate, either improving existing products and services, developing new ones or entering new markets.

Amazon takes advantage of economies of scale that derive from its excellent distribution and logistics systems. Technological innovation is the basis for Amazon's expansion, this is due in a large part to its investment in R&D that allows technological innovations.

This work focuses mainly on the analysis of Amazon's environment in Spain, as well as, its hybrid business strategy, its transnational corporate strategy and its internationalization strategy, based on whether to export or create marketplaces.

# AMAZON'S STRATEGIC ANALYSIS APPROACHING THE SPANISH MARKET

## INTRODUCTION

Amazon is one of the most innovative companies in the world, this American company has experienced a growth that has never been seen before. Amazon shares have had a growth of 48.197% from their initial offering on May 15th, 1997 until 2017. If someone had invested 10.000 dollars on Amazon, the investment would now have a market value of over 4.8 million dollars.

**Figure 1:** Amazon's total return



Source: markets.businessinsider.com

The objective of this work is to perform a detailed examination of the Company, through an external and an internal analysis. The aim is to know its weaknesses and strengths, as well as the opportunities and threats Amazon finds and from these analyze its strategies and its possibilities for the future.<sup>1</sup>

<sup>1</sup> HOOFFMAN, GREG (2017) Here's how rich you would be if you invested in Amazon at its IPO (AMZN).

## 1. OVERVIEW OF THE COMPANY: AMAZON.COM<sup>2</sup>

### 1.1. AMAZON.COM

Amazon is one of the 500 largest US companies. The company based in Seattle (Washington) is global leader in electronic commerce. Since Jeff Bezos launched Amazon.com in 1995, significant progress has made in offering, on websites and in international distribution and customer service networking. Nowadays, Amazon offers a wide variety of products, from books or video games, to tennis rackets and diamond rings. The company has direct presence in the United States, the United Kingdom, Germany, France, Italy, Spain, Japan, Canada, India and China. It can also serve its customers in 180 countries around the world.

**Map 1:** Amazon in the World



Source: Amazon.es - Acerca de Amazon.

Technological innovation is the basis for Amazon's expansion as it allows customers to have more and more product categories adapted to their needs at a lower price. It offers a personalized shopping experience, as an example, customers can buy quickly with the "Order-1-Click" and use various tools such as tips to discover new products.

The evolution of Amazon's website is determined by the desire to always innovate, which is a very important part of the DNA of the company. In the year 2000, Amazon started

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<sup>2</sup> Amazon.es - Acerca de Amazon.

offering the trading platform to other retailers and suppliers. Today, many companies work with Amazon Services to develop their offer in e-commerce, technical service, customer service, the management and the delivery of the orders. Many main brands use Amazon as a sales chain, as they offer their products through Amazon's website. Third-party software developers use Amazon Web Services to create applications and services that are provided to Amazon's customers and suppliers.

The evolution of e-commerce is completely revolving the retail sector. In the coming years, we will see how Amazon creates new technologies, expands to more geographical regions and continues to improve the lives of customers and sellers around the world.

## **1.2. BUSINESSES AND COMPETITORS.**

Amazon has two main business according to Jeff Bezos the CEO of the company, Amazon Marketplace and Amazon Web Services.

Amazon sells innumerable products in its marketplace that can be grouped in sub-markets. Of the sub-markets we can highlight, 1) Clothing, Shoes & Jewelry, 2) Garden & Tools, 3) Electronics, Computers & Office, 4) Toys, Kids & Baby, 5) Sports & Outdoors and 6) Food & Grocery.

Amazon offers a Prime service, a membership program that gives customers access to streaming video, music, e-books, free shipping and other specific services.

Amazon is the leading company of those who only engage in the electronic commerce sector in Spain, ahead of AliExpress and eBay. Amazon is currently in a great battle to control the global online commerce with China's AliExpress. Another competitor, the Japanese Rakuten that closed its affiliate in Spain this year could take advantage of the effect that causes the fact of being the sponsor of Football Club Barcelona to return even more strongly to the national market.

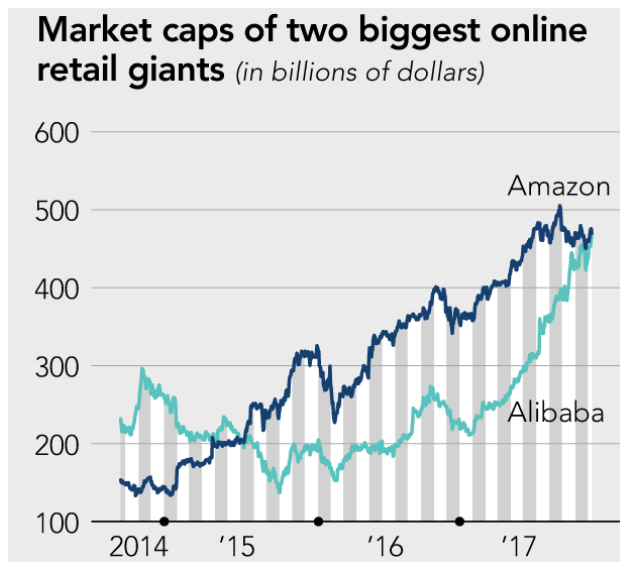
**Chart 1:** Main competitors in Amazon main business.

| Main businesses.     | Main competitors that only have online presence. |
|----------------------|--|
| Amazon Web Services. | Google Cloud Streaming and Microsoft Azure       |
| Amazon Marketplace   | Aliexpress (Alibaba Group), Rakuten and Ebay     |

Source: Own elaboration.

Amazon and Alibaba are competing to see which of the two reaches before the market capitalization of 500 billions of dollars. The year 2017 has been a good year for Amazon, but it has been even better for Alibaba. Amazon increased its market capitalization by more than 30% over the previous year, while Alibaba managed to double its figures. The growth experienced by Alibaba owes its explanation to its great dominance of the Chinese e-commerce market. This market grows at a much faster pace than the United States market, which is the market in which Amazon focuses its greatest efforts.<sup>3</sup>

**Figure 2:** Market caps of Amazon and Alibaba



Source: Asia.nikkei.com

Tables 1 and 2 serve to show the evolution of both companies from 2015 to 2017 in terms of total revenue, revenue per share and operating margins.

<sup>3</sup> Cnbc.com “Alibaba vs Amazon: The race to \$ 500 billion.

**Table 1:** Alibaba vs Amazon 21st August 2017

| Company | Total Revenue<br>(ttm) | Revenue per<br>share (ttm) | Operating<br>Margins |
|---------|------------------------|----------------------------|----------------------|
| Alibaba | \$10.09B               | \$4.59                     | 42.15%               |
| Amazon  | \$85.25B               | \$185.02                   | 0.12                 |

Source: Finance.yahoo.com

**Table 2:** Alibaba vs Amazon 28th January 2015

| Company | Total Revenue<br>(ttm) | Revenue per<br>share (ttm) | Operating<br>Margins |
|---------|------------------------|----------------------------|----------------------|
| Alibaba | \$26.42B               | \$10.52                    | 32.68%               |
| Amazon  | \$150.12B              | 314.52                     | 2.31                 |

Source: Finance.yahoo.com

From the comparison of both tables it can be affirmed that:

- Although the total revenue of Alibaba continues to be lower in terms of quantity, it has grown in a larger proportion than Amazon's.
- The dividend per share of Alibaba has grown more than that of Amazon in this period of time.
- The big problem of Amazon is that its operating margin has decreased, while the operating margin of Alibaba has increased considerably, being much higher than that of Amazon.

Among Amazon's main competitors in Spain that have a physical store, as well as an online store, we must distinguish the following:



**Chart 2:** Main competitors in the marketplace sub-markets.

| <b><u>Departments:</u></b>      | <b>Main competitors in Spain with physical store and online store</b>          |
|---------------------------------|--|
| Clothing, Shoes & Jewelry       | Primark, H&M, Inditex Gruop, Alcampo, Carrefour, and El Corte Ingles.          |
| Garden & Tools                  | Leroy Merlin, Ikea, Bricodepot, Carrefour, and El Corte Ingles.                |
| Electronics, Computers & Office | Fnac, MediaMarkt, Worten, Carlin, PCComponents, Carrefour and El Corte Ingles. |
| Toys, Kids & Baby               | Toys R Us, Imaginarium, Carrefour and El Corte Ingles.                         |
| Sports & Outdoors               | Decathlon, JD Sports, Carrefour and El Corte Ingles.                           |
| Food & Grocery                  | Mercadona, Lidl, Dia, Carrefour and El Corte Ingles.                           |

Source: Own elaboration.

However, in the Spanish market, we can affirm that Amazon is the leader, largely surpassing Aliexpress and El Corte Ingles, two of its main competitors based on the data in Table 3.

Amazon is the company with the highest volume of online sales in Spain, with the highest average number of unique visitors per month, with the highest number of unique online orders, with the lowest bounce rate and the longest visit time.

**Table 3:** The giants of e-commerce in Spain.

|                                       | <b>Amazon</b> | <b>Aliexpress</b> | <b>El Corte Ingles</b> |
|---------------------------------------|---------------|-------------------|------------------------|
| Total volume of online sales in 2.016 | 3.326.400.000 | 1.163.160.000     | 532.931.245            |
| Average of unique visitors/month      | 14.100.000    | 12.924.000        | 2.862.000              |
| Number of unique orders online /year  | 33.264.000    | 12.924.000        | 2.862.000              |
| Average ticket in euros               | 100           | 90                | 186,5                  |
| Average time per visit                | 5:43          | 3:57              | 4:17                   |
| Pages view per visit                  | 6,64          | 6,1               | 4,8                    |
| Bounce rate                           | 32,99%        | 42,94%            | 37,57%                 |

Source: Expansión.com

According to a recent study conducted by Fintonic, Amazon consolidates its leadership in front of the 'marketplace' in Spain, ahead of platforms such as AliExpress and eBay. Specifically, the clients of the platform of Jeff Bezos, make an average of 11 purchases a year with an amount of 32 euros on average per acquisition, while spending on AliExpress is 14 euros average ticket and eight purchases per year and on eBay the average ticket is 15 euros, although your customers do not usually buy more than twice a year.<sup>4</sup>

### 1.3. FINANCIAL RATIOS.

The following table shows the main economic and financial ratios of the company, which are divided into the following categories: earnings & estimates and ratios and margins (valuation, efficiency, liquidity, profitability and capital structure).

**Table 4:** Earning's & Estimates

#### Earnings & Estimates Amazon.com Inc.

|                |               |                 |               |
|----------------|---------------|-----------------|---------------|
| Qtr. EPS Est.  | +1.89 Q4 2017 | Qtr. Year Ago   | +1.54 Q4 2016 |
| Ann. EPS Est.  | +4.30 FY 2017 | Ann. Year Ago   | +4.90 FY 2016 |
| Next Report    | 02/01/2018    | Last Report     | 10/26/2017    |
| Fiscal Yr Ends | December 31   | No. of Analysts | 43            |

#### Per Share Data Amazon.com Inc.

*All values updated annually at fiscal year end*

|                     |       |                         |        |
|---------------------|-------|-------------------------|--------|
| Earnings Per Share  | +4.90 | Sales                   | 280.96 |
| Tangible Book Value | 30.71 | Operating Profit        | 8.99   |
| Working Capital     | 4.12  | Long Term Liabilities   | 48.05  |
| Capital Expenditure | 13.92 | Capital Expenditure TTM | 18.28  |

Source: Qoutes.wsj.com

<sup>4</sup> Elespañol.com - Aliexpress desafía a Amazon y estrena su primer espacio 'pop up' en Madrid.

The price-earnings ratio (P/E) shows that an investor is willing to pay 331,27 dollars for a dollar of current earnings. In this industry, revenues per employee tend to be very high because companies take advantage of economies of scale and a higher productivity. The current ratio is above 1, which means that its assets are bigger than its liabilities. The ROE ratio measures the profitability obtained by the owners of a company and the ROA ratio measures the efficiency of the business in using its assets to generate net income. The fact that the ROE ratio is higher than the ROA ratio proves that there is a positive leverage effect.

**Table 5: Ratios & Margins**

**Ratios & Margins Amazon.com Inc.**

*All values updated annually at fiscal year end*

| Valuation                                    |         | Profitability                   |        |
|--|---------|---------------------------------|--------|
| * P/E Ratio (TTM)                            | 331.27  | Gross Margin                    | +35.09 |
| ** P/E Ratio (including extraordinary items) | 327.46  | Operating Margin                | +3.20  |
| Price to Sales Ratio                         | 2.67    | Pretax Margin                   | +2.86  |
| Price to Book Ratio                          | 18.55   | Net Margin                      | +1.74  |
| Price to Cash Flow Ratio                     | 22.07   | Return on Assets                | 3.08   |
| ** Enterprise Value to EBITDA                | 49.57   | Return on Equity                | 14.52  |
| ** Enterprise Value to Sales                 | 3.64    | Return on Total Capital         | 6.71   |
| Total Debt to Enterprise Value               | 0.06    | Return on Invested Capital      | 7.64   |
| Total Debt to EBITDA                         | 1.72    | Capital Structure               |        |
| EPS (recurring)                              | 4.80    | Total Debt to Total Equity      | 105.83 |
| EPS (basic)                                  | 5.00    | Total Debt to Total Capital     | 51.42  |
| EPS (diluted)                                | 4.90    | Total Debt to Total Assets      | 23.73  |
| Efficiency                                   |         | Interest Coverage               | 8.99   |
| Revenue/Employee                             | 398,322 | Long-Term Debt to Equity        | 78.89  |
| Income Per Employee                          | 6,945   | Long-Term Debt to Total Capital | 38.32  |
| Receivables Turnover                         | 18.42   | Long-Term Debt to Assets        | 0.18   |
| Total Asset Turnover                         | 1.77    |                                 |        |
| Liquidity                                    |         |                                 |        |
| Current Ratio                                | 1.04    |                                 |        |
| Quick Ratio                                  | 0.78    |                                 |        |
| Cash Ratio                                   | 0.59    |                                 |        |

\* Updated Intraday

\*\* Updated Daily

\* Updated Intraday

\*\* Updated Daily

Source: Quotes.wsj.com

## **2. VISION AND MISSION STATEMENTS OF AMAZON<sup>5</sup>**

Amazon.com was launched in 1995 with the vision “to be Earth’s most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavors to offer customers the lowest possible prices.” In this vision we can distinguish three main characteristics: global reach, customer prioritization and the will to offer a wide variety of products.

This objective continues today, but Amazon’s customers are worldwide now, and have grown to include millions of Consumers, Sellers, Content Creators, and Developers & Enterprises. Each of these groups has different needs, so the company’s goal is always to try to meet those needs, innovating new solutions to make things easier, faster, better, and more cost-effective.

The mission statement of Amazon is: “We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience.”. In this mission statement we can distinguish three different features: the company’s pricing strategy, the availability of a wide variety of different products and the importance of convenience while shopping<sup>6</sup>.

## **3. HEADQUARTERS ORGANIZATION**

**Picture 1:1994**



Source: Geekwire.com

**Picture 2: 2017**



Source: Fortune.com

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<sup>5</sup> Amazon.jobs – Earth’s most customer-centric company.

<sup>6</sup> Amazon.jobs – Earth’s Biggest Selection.

Amazon's Headquarters are located on the center of Seattle in the United States, the hometown of the company where Amazon in 1994, started in the garage of Bezos rental house on a suburban road at the east of Seattle.

On its Seattle Headquarters, Amazon has its executive officers in charge on the main divisions of the company:

**Chart 2: Executive Officers.**

**Executive Officers of the Registrant**

| Name                 | Age | Position   |
|----------------------|-----|--|
| Jeffrey P. Bezos     | 53  | President, Chief Executive Officer, and Chairman of the Board          |
| Jeffrey M. Blackburn | 47  | Senior Vice President, Business Development                            |
| Andrew R. Jassy      | 49  | CEO Amazon Web Services  |
| Brian T. Olsavsky    | 53  | Senior Vice President and Chief Financial Officer                      |
| Shelley L. Reynolds  | 52  | Vice President, Worldwide Controller, and Principal Accounting Officer |
| Jeffrey A. Wilke     | 50  | CEO Worldwide Consumer   |
| David A. Zapolsky    | 53  | Senior Vice President, General Counsel, and Secretary                  |

Source: Amazon INC – Annual Report 2016

Today, Amazon has dozens of offices in more than 30 countries around the world. In North America, it has corporate offices on the U.S., Canada and Mexico. Amazon's corporate offices are all across North America from Santa Monica (home of Amazon Studios) to Brooklyn (home of Amazon Fashion), and from Vancouver B.C. to Mexico City.

Amazon is now planning the construction of its second headquarters in the North America in which is expecting to invest 5 billion dollars and that will employ more than 50.000 people directly, as well as the creation of tens of thousands of additional jobs and tens of billions of dollars in additional investment in the surrounding community. For that reason, Amazon has received more than 238 proposals from cities and regions across North America.<sup>7</sup>

In Europe, Amazon's main corporate offices are in Luxembourg as it's a very attractive business location due to its central location and the fact that its tax policy encourages international businesses. In Spain, Amazon corporate offices are based near Madrid capital city in Pozuelo de Alarcón.

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<sup>7</sup> Amazon.com - Amazon Headquarters.

#### **4. EXTERNAL ANALYSIS**

This American multinational is the most dominant player of the online retail industry in Spain. Over the years, Amazon has changed the way consumers and retailers interact.<sup>8</sup> What started as an online book retailer is now the biggest online retailer with a market capitalization of over 563 billion. The wide variety of products Amazon offers and its distribution network is what really makes the difference.

“A firm’s management needs to furnish itself with the best possible information on the nature of the environmental factors affecting it and the manner in which they can do so. Those factors that favor its operations are known as opportunities, whereas those other that constitute a hindrance are referred to as threats”.<sup>9</sup>

The environment of a company can be defined as all those characteristics outside the company that cannot be controlled by the company, and may influence the present and future activities, behaviors and results of the company.

##### **4.1. GENERAL ENVIRONMENT: AMAZON IN SPAIN<sup>10</sup>**

To analyze the general environment there is a broad consensus to use the PESTEL Analysis as a tool, which includes factors of the general environment (which are usually interconnected) grouped under different dimensions: Political, Economic, Social, Technological, Environmental and Legal.

**Political dimension.** Spain’s economy has experienced a notable rebound facilitated by structural reforms, which have mainly focused on reducing the inefficient and oversized government sector and reforming the labor market. Top income taxes on individuals and corporations have been lowered. Spain’s ongoing economic recovery, is still highly

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<sup>8</sup>QUINN, JAMES (2015) “Amazon timeline: from internet bookshop to the world's biggest online retailer” Telegraph.co.uk

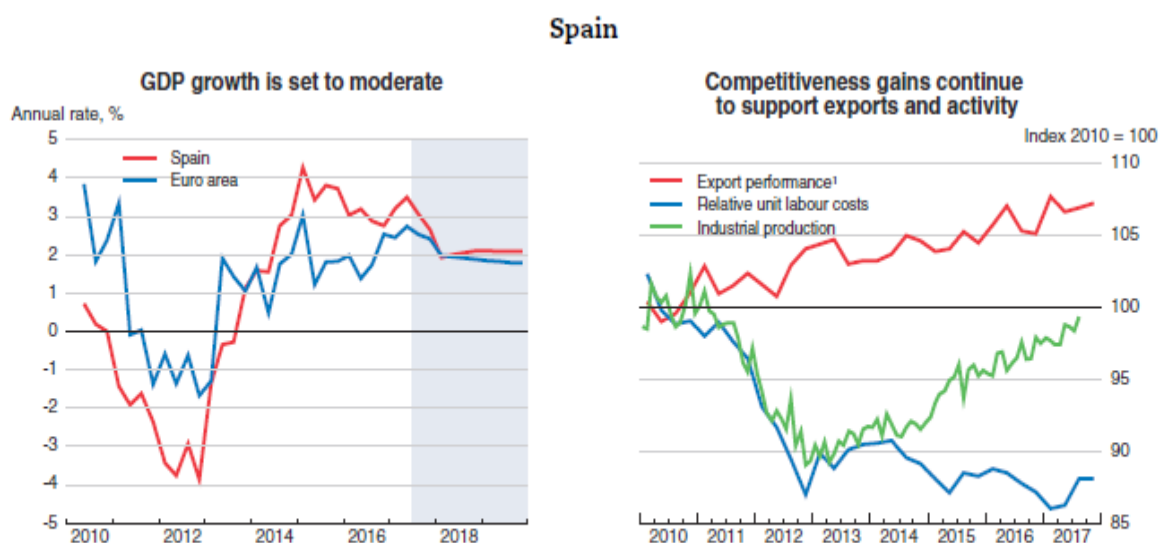
<sup>9</sup> NAVAS LÓPEZ and GUERRAS MARTÍN (2013) – “Fundamentals of strategic management”. 2013. Civitas- Thomson Reuters

<sup>10</sup> MARTÍN DE CASTRO, G., Díez VIAL, I., MONTORO SÁNCHEZ, M. and CUERVO GARCÍA, Á. (2016). Fundamentos de administración de empresas

vulnerable to challenges related with the country's fiscal stability and the restoration of competitiveness in the financial sector.<sup>11</sup>

**Economic dimension.** Economic growth has been strong and balanced in 2017, and is projected to soften, but still grow in 2018 and 2019. The European Union monetary policy will continue to support growth. The Economic Forecast for Spain made by the OCDE states: “Domestic demand will ease, as the support provided by low oil prices and lower taxes dissipates. On the other hand, political tensions in Catalonia have increased the level of uncertainty. Competitiveness gains will continue to support exports, even as external demand growth declines slightly. Inflation is projected to fall to 1.3% in 2018, before bouncing back somewhat in 2019”.<sup>12</sup>

**Figure 4:** GDP growth Annual Rate **Figure 5:** Competitiveness gains continue to support exports and activity.



1. Ratio between export volumes and weighted import volumes in the country's export markets.

Source: OECD Economic Outlook 102 database; and OECD Main Economic Indicators database.

StatLink <http://dx.doi.org/10.1787/888933632140>

Source: StatLink-OCDE Economic Outlook

Source: StatLink-OCDE Economic Outlook

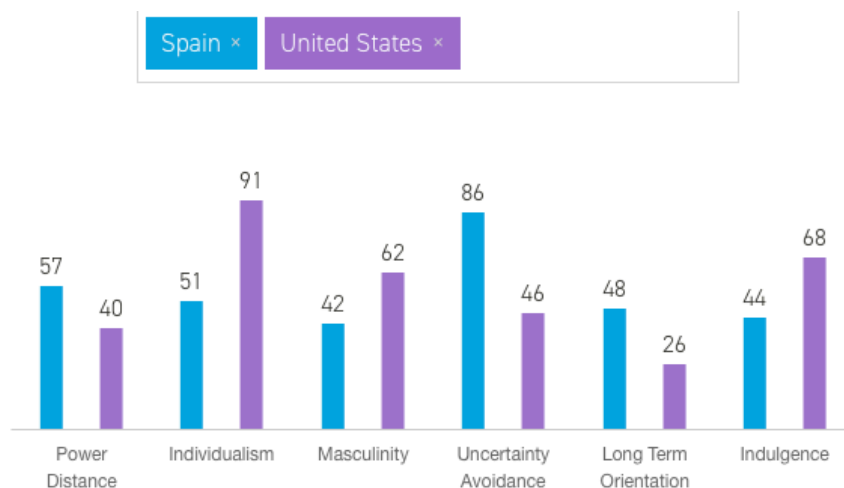
**Social dimension.** If we explore Spain through the lens of the Hofstede dimensions in comparison with the U.S., place where Amazon was founded.

<sup>11</sup> Heritage.org – 2017 Index of Economic Freedom. Spain.

<sup>12</sup> OCDE.org Spain – Economic forecast summary (November 2017).

- 1) Spain has a hierarchical society. Americans tend to question authority and expect to participate in decisions that affect them.
- 2) Spain in comparison with the rest of European countries and the United States is Collectivist, while the United States is a more individualist country. The “American dream” is the best representation of this individualism.
- 3) Spain is a country where the key word is consensus. The United States scores really high on masculinity.
- 4) In Spain there is a great concern for changing ambiguous and undefined situations in comparison with the United States which scores very low in uncertainty avoidance.
- 5) Spanish people like to live in the moment, without thinking much in the future while the United States scores normative on this dimension.
- 6) Spain is not an indulgent society compared to the society of the United States.<sup>13</sup>

**Figure 6:** Comparison between Spain and the US.<sup>14</sup>



Source: Hofstede Insights.

Spain is an outstanding country in terms of quality of life for expats as it holds an outstanding position in the rankings worldwide. According to HSBC, in terms of quality of life, Spain ranks 2nd and 10th on indicators such as “Experience” or “Family”, respectively. For expatriates worldwide, it is one of their preferred destination for living.

<sup>13</sup> Hofstede Insights – Country Comparison. Spain.

<sup>14</sup> Hofstede Insights – Country Comparison. Spain- United States



**Table 6:** Expat Explorer Comparison

| Expat Explorer, Broadening perspectives, 2017<br>International Comparison |       |        |                |         |       |             |         |
|---|-------|--------|----------------|---------|-------|-------------|---------|
| Indicator   | Spain | France | United Kingdom | Germany | Italy | Netherlands | Ireland |
| Global Position   | 17    | 23     | 35             | 4       | 38    | 5           | 37      |
| Experience  | 2     | 9      | 34             | 16      | 30    | 18          | 37      |
| Lifestyle   | 1     | 3      | 34             | 14      | 11    | 22          | 35      |
| People  | 2     | 22     | 32             | 17      | 24    | 19          | 23      |
| Setting up  | 10    | 22     | 32             | 29      | 42    | 21          | 45      |
| Family  | 10    | 17     | 38             | 5       | 21    | 1           | 37      |
| Relationships   | 6     | 22     | 33             | 21      | 30    | 15          | 23      |
| Education and Childcare   | 23    | 10     | 36             | 2       | 16    | 3           | 44      |
| Raising Children  | 9     | 23     | 38             | 10      | 15    | 5           | 31      |

Source: HSBC. Expat Explorer, 2017. 46 countries analyzed.

Source: HSBC - Expat Explorer.

**Technological dimension.** According to the report of the Telefonica Foundation on the information society in Spain in 2016, we can extract the following conclusions: 1) New generation broadband is already a majority, 2) Young people turn to the Internet as a tool for their education, 3) Internet drives social life, 4) The mobile breaks the barriers between professional and personal life, and 5) The marketing revolution comes along with the new technology.<sup>15</sup>

The development of e-commerce is a part of the process of globalization we are facing, nowadays people are more likely to have computers and internet connection and therefore more likely to buy online instead of buying through small stores that make up traditional commerce. As we can see in the following graph Spain due to the Horizon 2020 will invest more in research and innovation in order to drive economic growth and create. Horizon 2020 is the EU funding program running for 2014 to 2020 with an 80-billion-euro budget.

<sup>15</sup> Fundaciontelefonica.com – Informe: “La Sociedad de la Información en España 2016” (Consultation date: 14/1/18) Available at: [https://www.fundaciontelefonica.com/artes\\_cultura/sociedad-de-la-informacion/informe-sie-espana-2016/](https://www.fundaciontelefonica.com/artes_cultura/sociedad-de-la-informacion/informe-sie-espana-2016/)

**Table 7:** R&D in Spain.

|  | 2010   | 2016   | 2020   |
|--|--------|--------|--------|
| Percentage of Spending in R&D Over GDP (%)                         | 1,39%  | 1,48%  | 2,00%  |
| Percentage of Spending in R&D from the Private Sector Over GDP (%) | 0,60%  | 0,73%  | 1,20%  |
| % of R&D Spending from Foreign Sources                             | 5,70%  | 9,60%  | 15,00% |
| Employment in R&D Activities                                       | 11,80% | 13,00% | 16,00% |
| % of SMEs working with technological innovations over all SMEs     | 14,60% | 16,00% | 20,00% |
| % of Exports in ST&I Over Total of all exports                     | 4,70%  | 6,00%  | 10,00% |
| Increase in Number of Patents Requested                            | --     | 25,00% | 50,00% |
| Increase in Venture Capital Invested                               |        | 5,00%  | 12,00% |

Source: INE, OECD, Eurostat, World Intellectual Property Organization.

Source: INE, OECD, Eurostat, WIPO.

**Environmental dimension.** The Environmental Performance Index (EPI) Data ranks countries' performance on high-priority environmental issues in two areas: protection of human health and protection of ecosystems. It is a Yale University initiative in which Spain ranks 6th out of 180 countries. Therefore, we can say that Spain is a country that is very worried with the protection of human health and ecosystems.<sup>16</sup>

**Legal dimension.**<sup>17</sup> Activities related with E-commerce in Spanish legislation are regulated by diverse rules. Moreover, a fundamental point to bear in mind when undertaking any initiative in electronic transactions is the fact that the applicable legislation varies if the potential recipients of the offer is a business or a consumer. Consequently, there is greater leeway for the parties to agree if the transaction takes place between companies (business to business, B2B) than if the commercial dealings are between a company and a private consumer as the final recipient (business to consumer, B2C), since, among others, consumer protection legislation will apply in the latter case. In the tax sphere, e-commerce raises issues that are difficult to address from a purely Spanish perspective. For that reason, the Spanish tax authorities have not adopted any unilateral measures, as they are waiting until a consensus is reached either regionally or worldwide.

<sup>16</sup> epi.yale.edu Country rankings.

<sup>17</sup> Investinspain.org Legal framework and tax implications of ecommerce in Spain.

## 4.2. COMPETITIVE ENVIRONMENT: AMAZON IN SPAIN

“The competitive environment refers to that part of the environment that is closest to its everyday operations, that is the industry of the company”.<sup>18</sup>

Selection, convenience and price are the three main reasons why people decide to shop in Amazon, as on its marketplace customers can easily find a wide range of different products that will be shipped directly to their homes at the lowest price.

**Porter’s Five Forces Framework** developed by Michael Porter will identify the attractiveness of the industry in terms of five competitive forces: (1) threat of entry, (2) threat of substitutes, (3) power of buyers, (4) power of suppliers and (5) extent of rivalry between competitors.<sup>19</sup>

**Diagram 1:** Porter’s Five Forces.



Source: Harvard Business Review.

**The threat of new entrants** measures how easy it is for new competitors to enter the industry, augmenting the number of competitors and therefore deteriorating the attractiveness of the industry. Even, that in online retail industry the threat of new entrants is very significant as the switching costs are very low, we have to take into account the

<sup>18</sup> NAVAS LÓPEZ and GUERRAS MARTÍN (2013) – “Fundamentals of strategic management”. 2013. Civitas- Thomson Reuters

<sup>19</sup> An updated discussion of the classic framework is M. Porter, “The five competitive forces that shape strategy”. Harvard Business Review, vol.86 no.1 (2008) pp.58-77

high expenses brands need to assume in order to build a brand like Amazon. Economies of scale play a very important role, as in order to be able to compete with Amazon, brands need to develop mechanisms as this is one of Amazon's main differentials. For those reasons, the threat of new entrants in the online retail industry is low, even that nowadays it is very easy to initiate an online retail business. Economies of scale could be achieved with an agreement with a popular courier service company in Spain such as DHL or TIPSA.

Amazon brought in autumn to Spain, Amazon Logistics, its own operator that works through agreements with small courier companies to which lends its technology. It also started Amazon Flex, a logistics service with part-time autonomous dispatchers to perform local services. Amazon in an attempt to make it even easier to deliver the product to the customer, has installed automatic lockers in more than 120 points, many of which will be available 24 hours. This has been possible thanks to reaching agreements with companies such as Repsol, Telepizza, Día, OhMyBox, Merlin and Unibail that have given part of their infrastructure for the installation of lockers.<sup>20</sup>

**The threat of substitutes** in the online retail market is a very strong force. The fact that it is easy to find products or services that cover the same need, could reduce Amazon's competitive advantage. The high intensity of substitutes is due to the wide range of substitutes available (Spanish companies, multinationals and online brands are developing online websites and marketplaces), the low cost of substitutes and the low switching costs in the industry. The threat of substitutes is one of the main threat for Amazon and needs to be considered while establishing the mid and long-term goals of the company and its strategy.

Amazon has over 6,100 patents issued by the U.S., Europe and World Intellectual Property Organization. We have to remember that in the business of patents, what really matters is not about numbers, but having the best quality patents that aim to enable and extend a company's business model.<sup>21</sup> The great difference of Amazon against its

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<sup>20</sup> Elespañol.es Amazon coloca taquillas automáticas en mas de 120 puntos de España.

<sup>21</sup> Cnbc.com – “Amazon's latest patents are focused on video, augmented reality, and the connected home”.

substitutes is that the company owns the technology patent (One click order). Although Amazon does not have an absolute competitive advantage in its product offerings, it differs from its substitutes in terms of the quality of customer service and convenience.

**The bargaining power of buyers** analyses the influence that customers have on firms and on the environment of the online retail industry in Spain. Even that Amazon wants to be “Earth's most customer-centric company”, the bargaining power of buyers is high. This is because customers have a lot of information while searching for products online and take decisions based on comparing prices with other websites. Other facts that may influence this force, are the high availability of substitutes (the number of competitors has grown considerably in these past years) and the low switching costs in the industry of online retail.

The company offers different types of subscription programs to be able to fulfill better the need of its customers, such as Amazon Family (in which family-oriented offers are received, coupons and recommendations based on the age of the members) or Amazon Prime, which is Amazon's flagship program and costs € 19.90 a year, and which offers a fast, free and unlimited delivery system at no additional cost. It is anticipated that this year Amazon, taking advantage of its great bargaining power with its customers, will raise in Spain, between 20 and 40 euros more. Approximating its annual prices to countries such as United Kingdom or United States in which it exceeds, the equivalent to 80 euros per year. However, there are doubts about what will be the acceptance by Spanish customers, as Amazon in Spain does not offer the amount of services offered in those countries, such as Prime Music with access to more than 50 million songs in "streaming" and its Prime Video does not contain as many movies and series in Spanish.<sup>22</sup>

**The bargaining power of suppliers** is very low. Amazon is the leader on the Spanish retail market as its position while negotiating is very favorable. Amazon can in some way force suppliers to lower their prices, which is accepted by suppliers in exchange for higher sales and visibility.<sup>23</sup> Suppliers have very little power as there not are a lot of different suppliers available on the Spanish market and Amazon has the best distribution networks

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<sup>22</sup> Elconfidencial.com Adiós al chollo de Prime en España: Amazon planea una importante subida de precios.

<sup>23</sup> Amazon.com – Supply chain standards.

in Spain. Therefore, Amazon can set different plans for suppliers depending on the number of products they are going to sell. The prices to sell in the marketplace vary from 0.99 euros per article for sellers who sell less than 40 items a month, to 39 euros per month to sellers who sell more than 40 articles per month. Amazon sets the price unilaterally, without the possibility of negotiation. Brands really have a strong incentive to sell in Amazon.

Amazon has also set a “Supplier Code of Conduct” which all its suppliers need to follow. Amazon focuses on areas such as health and safety in production areas, the right to legal wages and benefits, appropriate working hours and overtime pay, the prevention of child labor or forced labor and the fair and ethical treatment.

The dominance of Amazon and its ability to limit the access of companies that supply products to its marketplace to data on their own customers, causes these companies have a great dependence on Amazon, conferring to Amazon the power to damage them by manufacturing their own products in the long-term. The companies strive to comply with the code of conduct and get positive ratings of their products to increase their sales.

At the center of five forces we have **the rivalry between the existing players in an industry**. Rivalry can be defined as the competition for the same objective or superiority in the same field. This force is characterized by the low switching costs that exist for consumers to transfer from one retailer to another, or to move from a Company to its substitute. The rivalry in the online retail industry is very high. This is because in Spain, as in the rest of European countries, B2C trade does not stop growing as shown in the following graph:

**Table 8:** B2C Sales Growth in Western Europe.

| <b>B2C Ecommerce Sales Growth in Western Europe, by Country, 2011-2016</b> |              |              |              |              |             |             |
|--|--------------|--------------|--------------|--------------|-------------|-------------|
| % change   |              |              |              |              |             |             |
|  | 2011         | 2012         | 2013         | 2014         | 2015        | 2016        |
| Italy  | 32.1%        | 25.5%        | 22.6%        | 20.3%        | 16.8%       | 12.4%       |
| Spain  | 22.4%        | 18.8%        | 16.2%        | 13.8%        | 11.9%       | 10.0%       |
| Sweden   | 22.0%        | 18.4%        | 16.2%        | 13.3%        | 10.3%       | 9.0%        |
| Norway   | 21.8%        | 17.1%        | 15.3%        | 13.3%        | 10.5%       | 7.4%        |
| Finland  | 20.1%        | 16.1%        | 14.7%        | 11.2%        | 9.0%        | 7.2%        |
| UK   | 13.7%        | 14.4%        | 13.4%        | 11.1%        | 9.3%        | 6.7%        |
| Germany  | 17.4%        | 23.4%        | 12.8%        | 9.4%         | 6.9%        | 6.5%        |
| Denmark  | 16.5%        | 14.3%        | 12.4%        | 10.6%        | 8.9%        | 6.5%        |
| Netherlands  | 20.2%        | 14.0%        | 12.4%        | 10.1%        | 9.0%        | 6.7%        |
| France   | 12.2%        | 12.3%        | 11.0%        | 9.1%         | 8.0%        | 7.6%        |
| Other  | 19.5%        | 20.0%        | 14.5%        | 12.0%        | 10.0%       | 8.9%        |
| <b>Western Europe</b>  | <b>16.5%</b> | <b>17.0%</b> | <b>13.9%</b> | <b>11.5%</b> | <b>9.5%</b> | <b>7.6%</b> |

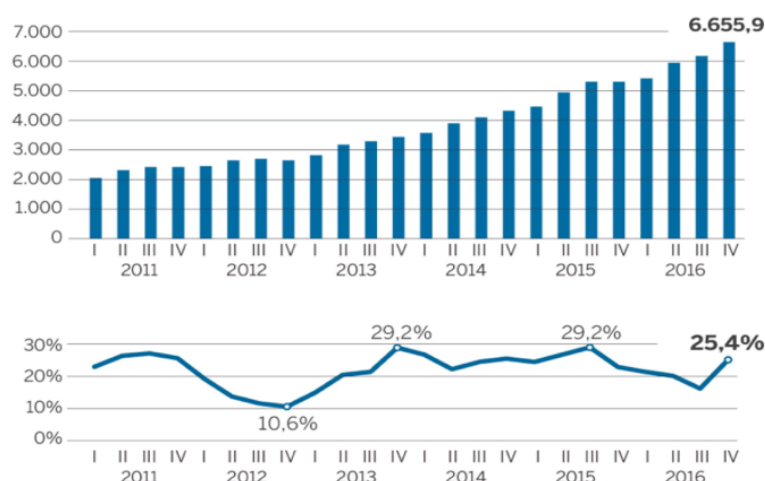
*Note: includes travel, digital downloads and event tickets purchased via any digital channel (including online, mobile and tablet); excludes gambling*  
Source: eMarketer, Jan 2013

150156 www.eMarketer.com

Source: Obaninternational.com

The CNMC (National Commission Markets and Competition) has declared that “Spain still has a substantial margin for growth, as between January and September 2016 online sales were once again at an all-time high and the number of transactions were up 32.7% over the previous year.”<sup>24</sup> On the following graph we can see the volume in millions of euros of e-commerce in Spain and its growth rate by semesters.

**Figure 7:** Ecommerce growth in Spain.



Source: Elpais.com

<sup>24</sup> LARROUY, DIEGO (2017) “El Corte Ingles pisa los talones a Amazon”

Competition must be considered as a strategic priority on the company's long run. On the past few years the number of competitors in Spain has grown a lot with the presence of multinational companies such as AliExpress or Rakuten, FC Barcelona's sponsor. Spanish and international traditional brands are investing to increase their online presence and their number of sales. There are also other online retailers such as PCComponents or Zalando that try to specialize in certain products like computers or shoes, which are strongly fighting for market share and creating competitive pressure.

Last year Amazon accounted for 7.48% of electronic commerce in Spain, these numbers are significantly low in comparison with other European market such as the United Kingdom (9.19%), France (10.06%), Italy (13.27%), or Germany where Amazon now represents one of every five online purchases.<sup>25</sup>

## **5. INTERNAL ANALYSIS**

An internal analysis consists in the analysis of the different factors that may exist within a project or company, to evaluate the resources available to a company to thereby know its situation and capabilities, and to detect strengths and weaknesses. This will help designing strategies to enhance or to take advantage of the strengths, and strategies that make it possible to neutralize or eliminate weaknesses.

According to Grant we must differentiate two components of strategic capabilities. "Resources are productive assets owned by the firm and capabilities are what the firm can do. Individual resources do not confer competitive advantage; they must work together to create organizational capabilities".<sup>26</sup> Strategic capabilities are the capabilities of an organization that contribute to the long-term survival or competitive advantage of the company.

### **5.1. AMAZON'S IDENTIFY**

Among the defining features of Amazon, we must highlight the following:

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<sup>25</sup> LARROUY, DIEGO (2017) "El Corte Ingles pisa los talones a Amazon"

<sup>26</sup> GRANT, ROBERT M. and JORDAN. J (2016) "Foundations of Strategy" Second edition. Wiley.



- **Age.** Amazon is in a developed or balanced stage, since there is a wide margin of growth.
- **Size.** Amazon is one of the largest companies in the world in terms of its turnover, assets or number of employees.
- **Scope.** Amazon due to its size has a very large field of activity. Its main activities are its Marketplace, its Prime program and Amazon Web Services.
- **Type of ownership.** Amazon is a private company. Institutional investors hold a majority ownership of the Company (62.00%) of the outstanding shares, from which 34.96 % are mutual fund holders.<sup>27</sup>
- **Geographic scope.** Amazon is one of the largest multinationals in the world. Although it only has 11 global marketplaces, it can make deliveries to more than 180 countries.
- **Legal structure.** Amazon is a limited liability company. The main reason to use this form to operate is to reduce the legal liability of the company's owners in case of a lawsuit.

These factors help to identify the general characteristics of the company through its global image.

Amazon is the most valuable retail brand in the world according to the BrandZ report prepared by Kantar Millward Brown on companies in the retail sector. Amazon has made great efforts to expand the number of products available in the marketplace, as well as to improve the convenience of the service. Amazon has achieved a brand value of 99,000 million dollars in 2017.<sup>28</sup>

The great value of the company is due in large part to the main technological innovations introduced by Amazon that allow it to differentiate itself from its competitors. These innovations are:

- Amazon Echo Dot, a voice-controlled device that plays music, provides information, sends and receives messages, makes calls, sets music alarms and more.

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<sup>27</sup> Money.cnn.com – Amazon.com Inc

<sup>28</sup> es.kantar.com - Ranking de las marcas de retail más valiosas del mundo.

- Customer reviews, allow clients to give their opinion about the products you buy and make comments to help others while shopping. Also, it is a mechanism for evaluating companies that sell their products in the marketplace.
- Frustration-free packaging. The packaging of the products that are bought in the marketplace is made of recyclable materials in its entirety. It makes it easier to open, and allows the company to send the products in their original packaging, eliminating the need for an additional shipping box. The company states: “As of December 2017, Amazon’s sustainable packaging innovations have eliminated 215,000 tons of packaging material and avoided 360 million shipping boxes.”<sup>29</sup>
- Fulfillment by Amazon, is used by all kinds of vendors in more than 100 countries and helps companies take advantage of use Amazon's fulfillment network.
- 1-Click, an innovation that allows customers to make purchases on the Web with just one click, without needing to enter the same information again and again for each purchase.<sup>30</sup>

The great investment in R&D carried out by Amazon, much higher than its competitors, as shown in Table 9, allows Amazon to develop innovations that enable the company to add greater value than its competitors.

**Table 9:** Comparison Amazon vs Alibaba R&D

| 2017 Rank ▲ | Company Name ▲                | Country ▲     | Industry group ▲      | R&D Expenditures (\$US Billions) |        | Revenue (\$US Billions) |        | R&D Intensity |        |
|-------------|-------------------------------|---------------|-----------------------|----------------------------------|--------|-------------------------|--------|---------------|--------|
|             |                               |               |                       | 2016 ▲                           | 2017 ▲ | 2016 ▲                  | 2017 ▲ | 2016 ▲        | 2017 ▲ |
| 1           | Amazon.com, Inc.              | United States | Retailing             | 12.5                             | 16.1   | 107.0                   | 136.0  | 11.7%         | 11.8%  |
| 56          | Alibaba Group Holding Limited | China         | Software and Services | 2.0                              | 2.5    | 14.7                    | 23.0   | 13.6%         | 10.8%  |

Source: The Global Innovation 1000 –Strategyand.pwc.com

Amazon is considered by Fast Company magazine as one of the most innovative companies in the world, surpassing Google and *Uber* that occupy the second and third place respectively.<sup>31</sup> Forbes also considers Amazon as one of the most innovative companies, as it stats: "Amazon continues to launch a dizzying array of new products

<sup>29</sup> Amazon.com - Frustration-Free Packaging

<sup>30</sup> Amazon- Our innovation: 1-click.

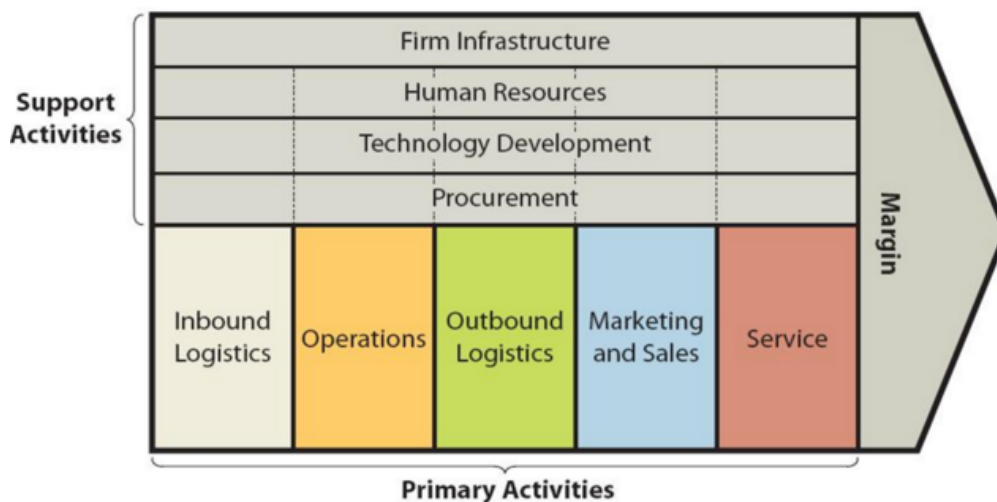
<sup>31</sup> FastCompany.com – Why Amazon is the world’s most innovative company of 2017?

and services. No other company has launched as many new products and services in the last decade”.<sup>32</sup>

## 6.2. VALUE CHAIN ANALYSIS<sup>33</sup>

Michael Porter’s value chain describes the categories of activities within an organization which, together, create a product or a service.

**Diagram 2:** Michael Porter’s value chain.



Source: Research-methodology.net

**Primary activities** are the ones that directly concerned with the creation of a product or a service, as well as their transfer to customers and after sale service.

Amazon is a service company. So, to make their understanding easier through the Porter model, we will group some of the primary activities.

**1.-** Inbound logistics and Outbound logistics will form a new group **Logistics**, in which activities concerned with receiving, storing and distributing those products, such as stock control, or transportation from suppliers to warehouses will be carried out. Activities related with the distribution of products to customers, including the services of its main partner in Spain: Correos Express, will also be included.

<sup>32</sup> DIER and GREGERSEN (2017)- How Does Amazon Stay At Day One? Forbes.

<sup>33</sup> JOHNSON, WHITTINGTON, SCHOLLES, ANGWIN AND REGNÈR (2014) “Exploring Strategy”. Pearson. Tenth Edition.

The following description process shows the path that products from third parties experience since they are sent to Amazon until they are shipped to the customer.



### 1. Set up FBA.

If you already have a Selling on Amazon account, [Add FBA to your account](#). If you don't have a Selling on Amazon account, [Get started](#) today.



### 2. Create your product listings.

Add your products to the Amazon catalog one at a time, in bulk, or by integrating your inventory-management software with Amazon's API.



### 3. Prepare your products.

Make sure your products are "e-commerce ready," so they can be safely and securely transported all the way into a customer's hands. Need supplies? Get [Amazon preferred prep and shipping supplies](#) delivered to your door.



### 4. Ship your products to Amazon.

Create your shipping plans, engage [discounted partner carriers](#), and ship and track your shipments to Amazon fulfillment centers. Amazon's online seller tools can help you through the process.



### 5. Customers order your products, and Amazon picks, packs, and ships them.

Prime customers get fast, free shipping on your products, and all customers can qualify for FREE shipping on eligible orders. Amazon fills those orders quickly and efficiently using our advanced, web-to-warehouse, high-speed picking and sorting system. Customers receive tracking information from Amazon.



### 6. Amazon provides customer support on products you sell.

Our world-class customer-service team manages customer inquiries, refunds, and returns for orders on Amazon marketplaces, 24 hours a day, seven days a week.

Source: Amazon.com - How fulfillment by Amazon works.

In Spain, Amazon has a lot of international suppliers, as well as national, from which Amazon receives quality products for its marketplace at the lowest prices possible. To guarantee a good service, Amazon is very concerned with stock control in its warehouses to benefit from its economies of scale. Amazon does not have any dependency or long-term agreements with its suppliers, creating direct competition between them.

What makes Amazon the biggest retailer in Spain is its marketplace and its logistics network, as they are their main competitive advantages.

Urban warehouses, logistics centers and logistics stations around Spain, are strategically located near four of Spain's biggest cities (Madrid, Barcelona, Valencia and Seville). It also has a development center of software in Madrid that employs over a hundred engineers and a European SME's support center in Barcelona. This is where, Southern European SME's find advice to sell their products in Amazon. This distribution network allows Amazon to have economies of scale, so the company is able to guarantee a quick, efficient and flexible service.

**Map 2:** Amazon's logistics in Spain



Source: Expansión

Activities related with the distribution of products to customers, are the weakest part of the value chain as Amazon has not integrated this part of the process control on its own logistics services. The continuous augmentation on number of the warehouse has decreased severally transportation costs.

**2.-** Amazon is a service company, so **operations, marketing and sales** should be analyzed together.

Amazon usually acts as an intermediary between suppliers and customers. The operations consist on the packing and the testing of the products, but when it produces its own

products, as it transforms inputs into the final product or service, this may also cover other activities, such as machining or assembly. E-commerce is a great source of value for companies as its more cost-effective than traditional selling methods.

Amazon operates mainly in three business segments: North America, International and Amazon Web Services.

**Table 10:** Amazon's net sales.<sup>34</sup>

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2014                    | 2015       | 2016       |
| Net Sales:  |                         |            |            |
| North America   | \$ 50,834               | \$ 63,708  | \$ 79,785  |
| International   | 33,510                  | 35,418     | 43,983     |
| AWS   | 4,644                   | 7,880      | 12,219     |
| Total consolidated  | \$ 88,988               | \$ 107,006 | \$ 135,987 |
| Year-over-year Percentage Growth:   |                         |            |            |
| North America   | 23%                     | 25%        | 25%        |
| International   | 12                      | 6          | 24         |
| AWS   | 49                      | 70         | 55         |
| Total consolidated  | 20                      | 20         | 27         |
| Year-over-year Percentage Growth, excluding the effect of foreign exchange rates: |                         |            |            |
| North America   | 23%                     | 26%        | 25%        |
| International   | 14                      | 21         | 26         |
| AWS   | 49                      | 70         | 55         |
| Total consolidated  | 20                      | 26         | 28         |
| Net Sales Mix:  |                         |            |            |
| North America   | 57%                     | 60%        | 59%        |
| International   | 38                      | 33         | 32         |
| AWS   | 5                       | 7          | 9          |
| Total consolidated  | 100%                    | 100%       | 100%       |

Source: Amazon INC – Annual Report 2016

Its main services are its Marketplace, Amazon Prime and Amazon Web Services.

Amazon's marketplace is its biggest asset, as it allows customers to buy products from many different categories at the lowest prices. This is one of the keys elements for the company to look for new opportunities such as partnerships with third parties.

Amazon, as the market leader for the online retailing sector has a huge customer Database, including thousands of Prime members that have an annual membership to the platform.

<sup>34</sup> Amazon INC – Annual Report 2016

Among the products created by Amazon, we can highlight the Kindle Fire, the Echo dot, the Amazon tab and Amazon TV. Products like the Amazon Fire Phone were a complete failure for the company, while others like the Echo dot are really successful.

**3.- Service** includes those activities that help maintaining the value of a product such as its reparation centers or its return policy.

Amazon's marketplace and Amazon Web Services offer a 24 hours' accessibility and 30 day-return policy. Amazon is a customer-centric company. They offer different services, during the purchasing process.

**Support activities** are the ones that help to augment the effectiveness or efficiency of primary activities.

1. **Firm infrastructure** includes the formal systems of planning, finance, quality control, information management and the structure of an organization.

In Spain, Amazon uses a single platform (Amazon.es) to make things easier for customers. From that platform, and with the same account, customers can access to all the different business. A very innovative technological infrastructure makes this possible.

2. **Human Resources management:** transcends to all the primary activities and is concerned with different activities like recruiting, managing, training or rewarding staff within Amazon.

Amazon is a company that is oriented to the customer. It is very conscious about the importance of having a strong culture and reinforcing the values mentioned in point 4.

Amazon Spain has over 1.600 permanent workers and this number is growing exponentially over the years and has created over 2100 indirect jobs on companies that sell their products to Amazon Spain. Amazon has efficient employee training programs

as well as a clear development system called Career Choice, an innovative education program that funds 95% of tuition and related fees to enable employees to undertake courses in fields of high demand.

In Amazon, there is a minority of highly qualified workers and a large majority of workers who perform functions for which a low qualification is required. Workers with higher qualifications and salaries are in the Headquarters mentioned in point 5, especially in the United States.

In Spain, there is a large group of temporary workers hired through temporary employment agencies that work in conditions that could be considered precarious such as transporters or warehouse waiters. These temporary workers are hired in function of the demand, very dependent on the seasonality of the sector.<sup>35</sup>

3. **Technology development:** Its main purpose is to commercialize the inventions and discovery that emerge from research and development. All value activities have a technology, even if it just a know-how.

Technologies may be concerned directly with a product (e.g. products design, product innovation or investment in research and development) or processes (e.g. Amazon's logistics network) or with a particular resource (e.g. cloud computing systems). It offers innovative services like One-Click-Payment, Amazon Coupons or Amazon Promo Codes that are innovative.

4. **Procurement:** The act of obtaining or buying goods and services. Processes that occur in many parts of the organization for acquiring the various resources inputs to the primary activities (not to the resources themselves).

This is one of the most important parts for Amazon as it contributes to the appearance of scale advantages. Amazon offers many products on its Marketplace to benefit from customers already in the platform who may find other products that they would like to buy.

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<sup>35</sup> Elconfidencial.com- La otra cara de trabajar en Amazon España: "Renuevas el domingo y se acaba el jueves"



## 6. SWOT ANALYSIS

The **SWOT analysis** is a way of drawing together an understanding of the strengths, weaknesses, opportunities and threats Amazon has.

**Diagram 3:** SWOT analysis



Source: Ethosdebate.com

**1.-Strengths:** Special capabilities and characteristics of the company to have an advantage over its competitors.

- Amazon is the leader online retailer in a global scale and the biggest in the Spanish market ahead of other brands like Aliexpress and El Corte Ingles.
- Amazon is the most valuable brand in the retail sector. The recognition from customers all around the world makes it easier for the company to enter new markets.
- An extensive product mix where customers can easily find almost everything they want.
- Cost leadership due to the economies of scale created by having an efficient logistics and distributions network.

- Efficient customer relationship management. Amazon has created a system by which they record data on customer's buying behaviors and enables the company to make suggestions about products that customers may want.
- The first's movers advantage is very important for Amazon as it came before other online retailers like Aliexpress or Rakuten.

**2.- Weaknesses:** factors of the company placed in an unfavorable position with respect to its competitors.

- Products like the Amazon Fire Phone damaged the company's brand name because they were unsuccessful.
- Its dependency on delivery services like Correos Express in Spain, which can lead to a potential augmentation of costs and a reduction on its margins.
- The precarious conditions of temporary workers.

**3.-Opportunities:** Facts of the environment, which are positive for the company; if it is able to detect them and exploit them in their favor.

- The notable rebound the Spanish economy has experienced. The taxes for corporations have been lowered.
- Internet drives social life. Customers are looking for a wide variety of products and services online. New sub-markets will surely be created soon.
- The development of e-commerce. Allows companies to offer more and more services such as the creation of Amazon Web Services.
- Young people tend to use the internet as a tool for their education, Amazon could create special memberships for universities and students in order to gain more costumers as it does in other countries.

**4.-Threats:** Situations that come from outside (of the company) and that can negatively affect the performance of the activity.

- New competitors, could augment the number of competitors in the industry, reducing its attractiveness.

- The addition of new categories to the marketplace may damage the brand, as it may be confusing for customers.
- Other companies like Aliexpress or Rakuten are imitating Amazon's business model. Profitable internet business attracts competitors quickly.
- In Spain local competitors as El Corte Ingles, PCComponents or Zara are willing to take their portion of the market.
- Measures adopted by local governments or in this case by the European Union could change the rules of the industry.
- The low barriers of entry in the business are causing price wars, shrinking margins and the loss of profitability.

## **7. STRATEGIES**

"The resources and capabilities of the company must be used to define the business strategy as the main source of competitive advantage for the company".<sup>36</sup> Ronda and Guerras state that strategy is "the dynamics of the firm's relation with its environment for which the necessary actions are taken to achieve its goal and/or to increase performance by means of the rational use of resources".

To simplify Amazon's strategies, we will divide this section into two different parts: 1) Business strategies and 2) Corporate strategies.

### **7.1. BUSINESS STRATEGIES**

"Business strategy is concerned with how the firm competes within a particular environment".<sup>37</sup> It is necessary for Amazon to establish a competitive advantage over its rivals to continue growing.

Bowman's Strategy Clock is a management model that serves to analyze the relationship between the value perceived by the customer and the price paid by the consumer for the

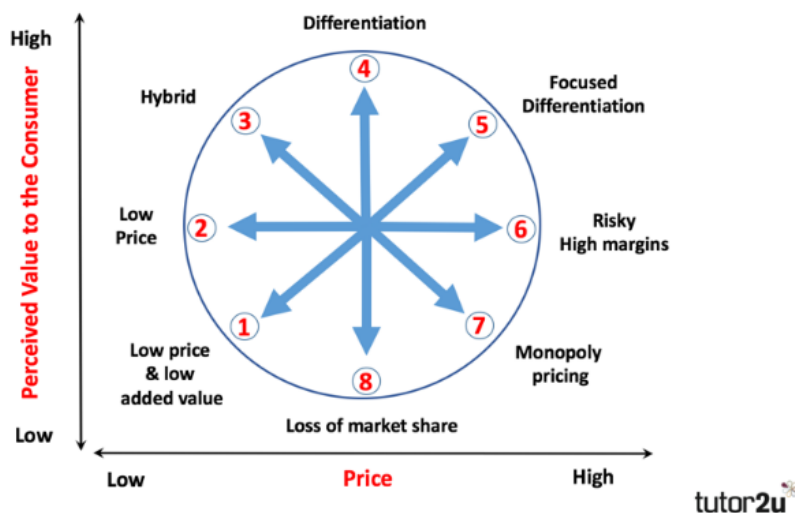
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<sup>36</sup>GRANT, ROBERT M. and JORDAN. J (2016) "Foundations of Strategy" Second edition. Wiley.

<sup>37</sup>GRANT, ROBERT M. and JORDAN. J (2016) "Foundations of Strategy" Second edition. Wiley.

product or service obtained. In the case of the two dimensions, the values they can take are three: high, medium or low.

**Diagram 4:** Bowman's Strategy Clock



Source: Tutor2u

Amazon follows a hybrid strategy in which the value perceived by the customer is high and the price of its products is low. This strategy combines the strategies of leadership in costs and product differentiation. The objective of a hybrid strategy is to persuade consumers that there is good value added. This positioning strategy is very difficult to achieve although very effective when it is achieved as it happens in the case of Amazon. Amazon tries to offer customers, a wide variety of products at the lowest possible prices.

This strategy tries to maximize the consumer surplus at the cost of reducing its profitability. It is the most favorable to the interests of the consumer.

Amazon uses this strategy taking advantage of having a sales volume superior to its competitors and can maintain an attractive margin as a result of the cost reduction achieved.

It is a transitory strategy since once the company obtains a considerable market share and the recognition of its clients, the company can raise prices increasing its margin and profitability.

Amazon's value added derives of its ability to adapt to the customer. It is always ready to offer new products and services, identifying customer needs wants, and desires. This is possible thanks to its efficient customer relationship management, by which the company records data on customer's buying behaviors and enables the company to make suggestions about products that customers may want. The high value perceived by the consumer is due to the technological innovations that the company has introduced, leading to an incredible shopping experience.

The result of always thinking about the client has allowed the development of innovations that now seem usual, but that were born in Amazon and were very important in the development of e-commerce. Among these we must highlight: the evaluation of products by the buyers, the wish lists or the purchase in a click. To explain the success of the company, two of its attributes must be taken into account: its huge catalog of products and services, and its logistics.

Amazon's core strategy is cost leadership, when its compared with bricks and mortar retailers. Amazon logistics network and its processing capability, allow the company to benefit from economies of scale. Among the strategies that promote cost leadership, we must highlight the free shipping of products, its "Price Check App" (which allows customer to scan bar codes in other stores and compares its prices directly with Amazon)<sup>38</sup>, selling Kindle tablets and reader devices at cost<sup>39</sup> or large discounts for regular members through its program Amazon Prime.

Amazon uses the same type of hybrid strategy in its marketplace, its Prime program and Amazon Web Services, since it always tries to offer the maximum number of products or services at the best price. Amazon's business strategy is sustained by three pillars.

Firstly, Amazon is continuously trying to enter new segments, what started as an online bookshop has become the world's biggest online retailer due to its wide variety of products available in its marketplace and its global logistics network. Since the launch of

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<sup>38</sup> KAIN, ERIK (2011) "Amazon Price Check May Be Evil But It's the Future". Forbes.

<sup>39</sup> bbc.com - Jeff Bezos confirmation.

the website in 2011, the company has added an average of 68,000 new articles a day to its catalog.<sup>40</sup> Amazon's philosophy is based on innovation.

Secondly, Amazon finds in its speed and convenience, key competitive advantages, as it uses economies of scale and its dominant position in the market to increase efficiency between its external drivers and its internal resources. One of the main innovations of the company is the fact that stocks are not organized by categories, the location of the stock is done randomly as a measure to reduce the displacements of the employees and the time between the click and the delivery. To participate on Amazon's platform, you need to be able to develop your own products so that they can compete on the market, at the same time you will need to be trustworthy on Amazon's ability to position its marketplace.

Thirdly, the compromise of the company with its core values, its customer and suppliers is very high. Amazon as a customer-centric based company is very conscious about the importance of maintaining the trust of the different groups of stakeholders, while identifying, anticipating and satisfying customer requirements.

## **7.2. CORPORATE STRATEGIES**

"Corporate strategy defines the scope of the firms in terms of the industries and markets in which it competes".<sup>41</sup> The objective of the development strategies is the modification of the field of activity. This happens when the factors included in its definition are modified, such as its mission, technologies, new needs of the clients or the endowment of resources and capabilities.

### **7.2.1 STRATEGIES OR DIRECTIONS FOR DEVELOPMENT**

In Amazon, we can observe the following strategies or directions for development:

#### **1. Expansion strategy.**

It is directed towards the development of traditional products and markets of the company. It is based on the expansion or exploitation of the current businesses of the company, which is a close relationship with its current activity.

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<sup>40</sup> FERNANDEZ, MORENO (2016) "Logística, la clave del éxito de Amazon". Expansion.

<sup>41</sup> GRANT, ROBERT M. and JORDAN. J (2016) "Foundations of Strategy" Second edition. Wiley.

The creation of new marketplaces, the increase and improvement of the products the Marketplaces contain, and the development of Amazon Web Services are the essential components of Amazon's expansion strategy.

The creation of new global marketplaces is a very complicated decision. An error in a strategic decision like this could mean very important losses. It is very important to study the conditions and the evolution of the competitive market.

**Table 11:** Amazon's Marketplaces

| <b>Region</b>               | <b>Sovereignty</b>    | <b>Domain name</b> | <b>Since</b>   |
|-----------------------------|-----------------------|--------------------|----------------|
| <b><u>Asia</u></b>          | <b>China</b>          | Amazon.cn          | September 2004 |
|                             | <b>India</b>          | amazon.in          | June 2013      |
|                             | <b>Japan</b>          | amazon.co.jp       | November 2000  |
| <b><u>Europe</u></b>        | <b>France</b>         | amazon.fr          | August 2000    |
|                             | <b>Germany</b>        | amazon.de          | October 1998   |
|                             | <b>Italy</b>          | amazon.it          | November 2010  |
|                             | <b>Spain</b>          | amazon.es          | September 2011 |
|                             | <b>United Kingdom</b> | amazon.co.uk       | October 1998   |
| <b><u>North America</u></b> | <b>Canada</b>         | amazon.ca          | June 2002      |
|                             | <b>Mexico</b>         | amazon.com.mx      | August 2013    |
|                             | <b>United States</b>  | amazon.com         | July 1995      |

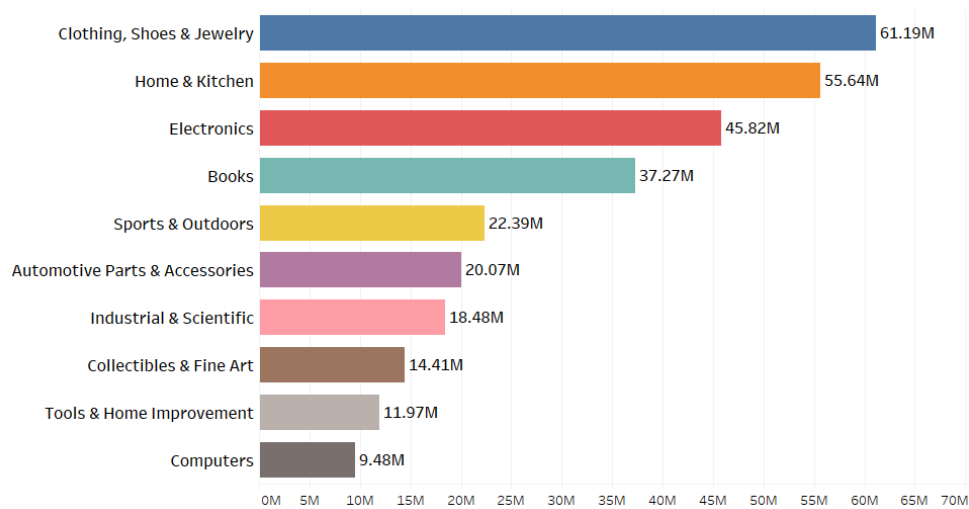
Source: Own elaboration

Changes in the marketplace are made first in the US, and then later in the rest of the world. Amazon uses the US market to anticipate the future of European markets thanks to the analysis of what happens in the United States. As an example, customer reviews were introduced for the first time in the United States, seeing their rapid success, in a few weeks they were introduced in European marketplaces.

There is a constant augmentation of products in the marketplace, (its traditional service) the number continues growing every day. As years go by, Amazon is innovating by introducing new categories such as alcoholic beverages or collectibles and fine arts. This strategy is appropriate in very competitive industries, although the process of creating products can be expensive and not necessarily lead to immediate success.

By the number of products available in Amazon the main categories are:

**Figure 8:** Products available in Amazon by category



Source: Scraphero.com

## 2. Diversification strategy.

Amazon's main concern right now is the development of Amazon Web Services, is a secure cloud services platform, offering compute power, database storage, content delivery and other functionality to help businesses scale and grow.<sup>42</sup> Not happy with being the market leaders with around 35% market share<sup>43</sup>, Amazon is constantly innovating, growing the list of services AWS provides, and searching what customers may want and giving it to them. This strategy is very demanding in terms of resources and capabilities.

Amazon wants more and is creating new services such as Amazon Studios, Amazon Drive or Amazon Fresh to expand its business units. Amazon is willing to expand to every branch on the retail sector.

<sup>42</sup> [aws.amazon.com](https://aws.amazon.com/)- Cloud computing with Amazon Web Services.

<sup>43</sup> According to numbers from Techcrunch.com- Synergy Research.



## Time Line 1: Amazon History

### Amazon History



Source: Business Maximizers.com

Taking part of the grocery shopping industry is one of the priorities of Amazon, as it showed the acquisition in June 2017 of Whole Foods for 13.7 billion dollars. The company is possibly going to do similar acquisitions in big cities located in their main marketplaces, such as Paris in France, London in the UK or Madrid in Spain.

Bloomberg magazine predicted that Amazon will get into banking in 2018, either as a tactical move or a broad strategy, as Amazon may want to start providing auto loans, credit cards and home mortgages.<sup>44</sup> Amazon is already offering “Amazon Rewards Visa Signature Cards” in an agreement with JPMorgan in the United States, a program in which if you pay with that you can earn the three or the five percent of the amount you spent on Amazon.com depending on if you are a Prime member or not.<sup>45</sup>

There is evidence, that Amazon wants to start selling cars in Europe, and has already started to recruit industry experts, including specialist Christoph Moeller. It would not be the first time as last year Amazon partnered with Fiat Chrysler to sell the Fiat 500 and the

<sup>44</sup> LEINZ, KAILEY (2017), “Amazon gets into banking and other 2018 Predictions from CRFA”.

<sup>45</sup> Chase.com

Panda on its Italian marketplace.<sup>46</sup> Offering new categories of products like cars or motorbikes could be a good idea to diversify the marketplace. These products are more expensive than typical products you buy on Amazon. Therefore, could obtain bigger margins.

Sky news announced that Amazon might be preparing to accept payments in Bitcoin and other crypto currencies as they have already registered three domains.<sup>47</sup>

Amazon is also planning to push into digital advertising in 2018, as it was 209-billion-dollar business in 2017 and is expected to growth 13% next year. For that reason, Amazon has been experimenting with various advertising products across its website.

The main reasons why Amazon pursues related diversification strategies as the ones mentioned is the generation of synergies across the various business. These synergies could be achieved by the sharing of resources and the transference of knowledge and/or capabilities from one business to another. As the main risks of this type of strategy we can highlight the costs of coordination, compromising and inflexibility.<sup>48</sup>

### **3. Vertical Integration dimension.**

“The greater the span of vertical activities over which a firm’s ownership extends, the greater it’s the degree of vertical integration”.<sup>49</sup> Nowadays, vertical integration is one of the key issues for the company as Amazon is constantly seeking to integrate in order to eliminate reliance on delivery companies,<sup>50</sup> as well as to try to take advantage and increase their profits selling products of their own brands.

Amazon is making constant efforts and investments on Prime Air, a delivery system from Amazon designed to safely get packages to customers in 30 minutes or less using unmanned aerial vehicles or drones. It has a great potential to enhance the services that the company already provides to millions of customers by offering a rapid parcel delivery

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<sup>46</sup>SOPHIE, CHRISTIE (2017) “Amazon is planning to sell CARS as online retail giant starts hiring new dealer sales staff”. The Sun.

<sup>47</sup>Sky News – “Is Amazon preparing to accept the bitcoin?”

<sup>48</sup>. NAVAS LÓPEZ and GUERRAS MARTÍN (2013) – “Fundamentals of strategic management”. 2013. Civitas- Thomson Reuters

<sup>49</sup> GRANT, ROBERT M. and JORDAN. J (2016) “Foundations of Strategy” Second edition. Wiley.

<sup>50</sup> Investopedia.com “Can Internet companies be vertically integrated?”

system that will increase the overall safety and efficiency of the transportation system.<sup>51</sup> One of Amazon's newest innovations in the area of e-commerce order fulfillment is their fleet of Amazon planes and their announced air hub at the Cincinnati/Northern Kentucky International Airport to support package delivery to their fast growing number of Prime members who love ultra-fast delivery, great prices, and vast selection from Amazon.<sup>52</sup>

Amazon is taking advantage of its dominance and in an attempt of augmenting its margins is following a private-label strategy to achieve vertical integration. Amazon's private label line AmazonBasics is the top performer. It includes an extensive variety of everyday essentials, from electronic accessories or Bluetooth speakers, to pet supplies or office accessories. In total, it accounts for almost 2,000 different products, being Amazon's largest private label. Amazon is very careful when it comes to disclosing information about sales on its platforms. It is curious that he does not disclose his private label sales in his public presentations, but only specifies the product category from which those revenues come.

Amazon uses vertical integration strategies to take advantage of synergies and increase their profits. Although there are obvious advantages, vertical integration has major problems such as the increase in the overall risk of the company, the organizational complexity or the long period of time necessary to recover the investments.

## **7.2.2 DEVELOPMENT METHODS.**

Among the development methods used by Amazon we must distinguish:

### **1. Internal growth.**

Internal growth is what the company does through investments in its own structure. It is based on the investment in new factors of production that increase the productive capacity of the company.<sup>53</sup> This is reflected in different activities such as the acquisition of the most recent technology, the construction of new installations, commercial distribution or the purchase of machinery. The main advantage of internal growth is the use of

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<sup>51</sup> Amazon.com – Amazon Air.

<sup>52</sup> Amazon.jobs – Amazon Air.

<sup>53</sup> NAVAS LÓPEZ and GUERRAS MARTÍN (2013) – “Fundamentals of strategic management”. 2013. Civitas- Thomson Reuters

economies of scale, which allows lower costs, lower prices and companies to be more competitive.

## **2. External growth.**

External growth results from the acquisition, participation, association or control, by a company of other companies or the assets of other companies that were already in operation. The main reasons why this type of external growth is used are economic and strategic. External growth allows the reduction of costs, the obtaining of new resources and capacities, and the facilitation of vertical integration.

Amazon uses the method of acquiring companies as a form of external growth. Amazon has acquired many companies over its history. A few months ago in the United States, Amazon bought Whole Foods for 13.7 billion dollars, to enter in the grocery industry in the US.<sup>54</sup> Amazon has made different acquisitions of companies related to artificial intelligence, financial services, social commerce and networks, hardware, transportation and logistics, ... This method offers as main advantages for Amazon, rapid growth and the acquisition of resources and capacities not available in the market. The main problem is the high cost of the operations.

Amazon also makes contractual agreements with other companies such as Correos Express in Spain to deliver the orders of its marketplace. This helps you to have an efficient delivery service, while the company develops Amazon Prime Air.

## **8. INTERNATIONALIZATION STRATEGY.**

Amazon is a multinational company that employs a transnational strategy. This strategy tries to combine the advantages of global and multi-domestic strategies. Amazon is a company that “strives to optimize the trade-offs associated with efficiency, local adaptation and global learning”.<sup>55</sup> Its aim is to maximize local responsiveness but also to gain benefits from global integration. An important aspect of the transnational strategy is

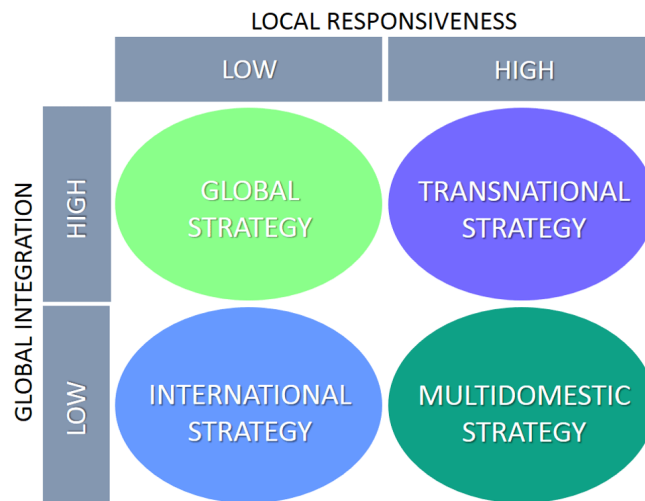
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<sup>54</sup> Elpais.com. – Amazon compra los supermercados Whole Foods por 13.700 millones de dólares.

<sup>55</sup> BARTLETT and GHOSAL (1989) “Managing across borders: The transnational solution”. Boston. Harvard Business School Press.

“leveraging innovations from wheter in the world they occur to everywhere in the World the firm operates”.<sup>56</sup>

**Diagram 5:** Bartlett and Ghoshal’s typology of multinational companies:



Source: business-to-you.com

Regarding the entry strategies, Amazon must decide in which countries it wants to operate through Marketplaces and in which countries it wants to directly export the products.

- **Direct investment abroad** consists of the contribution of capital in the foreign country. Amazon creates its own subsidiaries to serve local markets from their own countries. This is a very expensive, but appropriate alternative, when a global strategic coordination is needed.

Amazon operates 11 online marketplaces worldwide, allowing sellers to grow their business internationally, independent of where their business is physically established. With Amazon, sellers can introduce their brand and products to millions of customers in Amazon’s marketplaces.

Amazon is now making big efforts to create marketplaces in countries where they have high demand of their products like Brazil, Singapore, Australia and the Netherlands where its marketplaces soon will offer as many categories as the ones already mentioned.

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<sup>56</sup> COLLIS, DAVID “International Strategy: Context, concepts and implications. Harvard Business School.

- **Exporting** is the strategy followed by Amazon in most countries, as it is the easiest and the most traditional manner to access international markets.

Its main advantages are to avoid the costs of creating infrastructures in that country and the exploitation of the other marketplaces.

## **CONCLUSIONS**

Amazon is a company that has demonstrated that is able to go beyond its fundamental activity (its marketplace) and apply its experience, resources and knowledge to other sectors of the market, taking advantage of the maximum growth potential. Vision, innovation and strong ambition are the key drivers of this e-commerce giant to dominate other sectors.

The e-commerce sector is growing fast in the global market, so as in Spain, where Amazon has the first movers advantage. Amazon's has a clear and open vision and a great desire to become "Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavors to offer its customers the lowest possible prices" shows the will of always continue improving and finding new possible business units where the company can invest.

It could be concluded that Amazon strategy owes its success to:

- An idea, Jeff Bezos idea's of creating an ecommerce company taking advantage of being the first mover.
- Technological innovation, allows customers to have personalized shopping experience, as an example, customers can buy quickly with the "Order-1-Click" and use various tools such as tips to discover new products.

- The use of a hybrid strategy, allows it to benefit from leadership in costs and product differentiation. Amazon has chosen to be a company accessible to all budgets.
- Its ability to adapt to the customer. Always trying to anticipate customer needs, wants, and desires. Thanks to its good management of the extensive information on customer's buying behaviors, the company can be much more efficient. Data is becoming more and more important.
- The company has a great customer service, which includes quick reparation of damaged products, a 30-day return policy and a constant surveillance of its suppliers.
- Economies of scale, Amazon has created one of the most advanced logistics and distribution networks in the World.
- The use of a transnational strategy, which maximizes local responsiveness and allows Amazon to gain benefits from global integration.
- The ability to make good decisions when deciding in which markets to create a marketplace and in which markets to export.
- The ambition of the company, growing the list of services that Amazon Web Services provides, and searching what customers may want and giving it to them is one of Amazon's priorities.

To remain successful, Amazon should:

- Continue creating new services such as Amazon Studios, Amazon Drive or Amazon Fresh to expand its business units. The company is willing to expand to every branch on the retail sector.

- Pursue vertical integration in order to eliminate reliance on delivery companies, as well as, to try to increase their profits selling products of their own brands. We can highlight the efforts made in Amazon Air and in drone technology.
- Keep on investing on logistics and distribution network, as it is one of its key differentials over its competitors.
- The customer remains a priority for Amazon, as Amazon should focus on identifying, anticipating and satisfying customer needs, to offer customers, the widest selection of products at the lowest price.



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