

HOW ATTRACTIVE IS THE ONLINE RETAILING INDUSTRY FOR A MARKET LEADER: A STUDY ON AMAZON

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Abstract: *The awareness and implementation of competitive strategies shapes the competition thus represent the difference between successful and unsuccessful firm. This doctrine is equally applicable for both online and offline firms. Hence, the leading online retailer- Amazon in the online retailing industry is no exception to this. In this paper, the strategies of this market leader in the context of online retailing are explored by conducting an extensive literature review. In particular, this paper examines how and to what extent Amazon is responding to the Porter's five competitive forces simultaneously to retain its status as the attractive leader of online retailing. It is revealed that though the restructuring of the company strategies in light of the competitive forces is extremely complex in the digital environment, a visionary, innovative and customer-oriented company like Amazon can do remarkably well.*

Keywords: *Amazon, online retailing, Porter's competitive forces, innovative.*

INTRODUCTION

The proliferation of business-to-consumer electronic commerce (B2CEC) in recent years forces organizations to increase and solidify their net presence through a new retail format: the virtual store. As per the recent projection, e-commerce will gain more ground than any other segment of the retail industry by 2017, with a compound annual growth rate of 11% each year (Acnielsen.com, 2013). Online shopping is becoming a safe and popular means of purchase in today's technologically interconnected world thus consumers around the world are increasingly turning back from crowded stores and moving towards the click convenience. In 2008, 875 million customers purchase over the internet which is approximately 40 percent of the world's online population (Acnielsen.com, 2013). Global online retail sales reached USD 348.9 billion in 2009. Although this figure accounts for only 2.5 percent of global retail sales, however, people are moving more towards online shopping especially in the developing countries (Internet world stats, 2011). Sensing the immense prospects of online shopping companies including Amazon, Barnes and Noble.com and ebay.com jumped into

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this new retail channels. Leading from the front Amazon has nurtured this new retail format and become the market leader in online retailing (Hof, 2006). It is operating in seven big markets with a sales volume of around USD 15 billion in 2007 (Amazon, 2008). Although till now Amazon clearly runs ahead of the competitors in terms of size, volume of operations and profit in the context of online retailing, the benefits of being the first mover is fading quite rapidly. The continuous fragmentation of this immensely potential industry could be one of the reasons for such challenge. This paper is an attempt to shed light on such presumptions.

Amazon.com began selling books online in 1995, one of the first electronic commerce firms. By 1999, books were the second largest retail segment (after computers) sold over the Internet (BCG, 2000). Online book sales grew from essentially nothing in 1995 to more than \$2 billion in 2000 (Forrester, 2001). Today e-retailers accounts for nearly half of book purchases in terms of volume thereby overtaking the traditional physical retail stores (Greenfield, 2013). Within the online bookstore industry, the two dominant players are Amazon.com and BN.com. These two firms account for more than 85% of online book sales and Amazon alone accounted for around 15 to 20 percent of book sales in the United States in 2010 (Lule, 2012). This success of Amazon doesn't come without pain. The relentless 18 years of journey is spurred up with the lesson learned through occasional failures, concurrent capability of innovation and the highly innovative business models. This has helped Amazon to emerge as the 'big boss' of online enterprise that offers variety of products and services including books, movies, games, and music, electronics and other general merchandise categories including apparel and accessories, auto parts, home furnishings, health and beauty aids, toys, and groceries. However, the explosive surge of new competitor's in this highly volatile e-commerce industry can destabilize the market power of even a giant like Amazon.

Apart from the direct competitors, there are four additional competitive forces that can hurt company's prospective profits and eventually survival in the industry including market leader like Amazon (Porter, 1979). They are: **(a)** customers that can drive prices down by forcing the company to compete with rival company, **(b)** suppliers that can charge higher prices for the exclusive supplies, **(c)** new entrants armed with new capabilities and desire to capture market share, and **(d)** substitute offerings that can attract customers toward switching among competing brands. According to Porter (2008), "awareness of the five forces can help a company understand the structure of its industry and stake out a position that is more profitable and less vulnerable to attack". Hence, analysing the five competitive forces provides a complete picture of the underlying influencing factors that can affect the profitability of a company. This offers an early warning to the firm regarding the changing trends in the market which in turn help the firm to work on their weakness, exploit the opportunities, and prepared to face new threats earlier than the rivals. In this backdrop the

purpose of this paper thus is to analyse the five competitive forces of attractiveness of the online retailing industry with specific focus on Amazon business approach.

This paper is organized as follows. The next section presents the objectives and methodology of this paper followed by a review of the relevant segments of online retailing literature with a specific focus on Amazon. In particular, the paper reviews Amazon's business model, financial performance, sustainability, expansion opportunities and major competitors. Subsequently, an in-depth analysis on the 'attractiveness' of the e-commerce industry in relation to Amazon is provided to offer readers an idea of the future outlook of the e-commerce industry. Finally, the conclusion is provided.

OBJECTIVES

The present paper primarily investigates the attractiveness of the online retailing industry with specific focus on the five competitive forces of Amazon. More specifically the current paper aspires to examine how and to what extent Amazon simultaneously address and accommodates the five competitive forces so that it can hold its position as the market leader in the online retailing industry.

METHODOLOGY

The current paper conducted an extensive literature review by using academic journals, text books, company websites, industry newsletters and other relevant publications. Due to the voluminous nature of the academic and the professional publications the literature review were primarily focused on the online retailing and more specifically with reference to Amazon. Amazon received the sole focus in this particular paper due to the dominant role that it plays in the overall online retailing industry. Recent accounting data shows that Amazon.com's book, music and DVD sales are approximately four times compared to its closest competitor BN.com (Chevalier and Goolsbee, 2003). Amazon therefore turned out to be the most suitable case of study for this paper and is duly considered as the subject matter. We are hopeful that the literature review as presented in this paper will serve as a roadmap of understanding the impact of five competitive forces on a leading online retail store like Amazon for both academicians and practitioners and help stimulate the interest on this nascent issue.

THEORETICAL UNDERPINNINGS

The understanding of the different perspectives of online retailing as approached by academics and professionals is a necessity to explore the importance of investigating the attractiveness of online retailing with a specific focus on Amazon.com. Therefore, this section focuses on discussing issues like brief history of online retailing, evolution of Amazon as the biggest online retailer, the general advantages and challenges of online retailing. Discussion on Amazon's business model, financial performance, sustainability, expansion opportunities

and major competitors are also included while addressing the literature on Amazon. The discussion solely focuses on justifying the importance of conducting the industry attractiveness study on the basis of Porter five competitive forces in the context of Amazon.

Evolution of Online Retailing:

Over the last ten years the history of online retailing has been shaping up dramatically. While online shopping is commonplace now, it hasn't been around for quite long time. The World Wide Web became popular around 1989 and 1990 and has since been seen an e-commerce explosion. The second important step in the history of online retailing, beyond the invention of the Internet itself, was online banking. It was created and developed in 1994, making online transactions possible (Ann, 2006). Though surprising, Pizza Hut was the first online retailer. They were the first pizza chain to offer online ordering or home delivery during a 1994 test phase in Santa Cruz, California (Robinson, 2010). In 1995, Amazon launched as an online bookstore. Once the company realized that other goods could also be in high demand in this new platform, they started offering a bigger selection of merchandise (Richard, 2011). The online auction site, eBay, also began in 1995 and quickly grew in popularity. To this date, Amazon and eBay are the biggest online retailers (Economic Focus, 2010).

When Amazon.com opened for business on July 16, 1995, it was nothing more than a few people packing and shipping boxes of books from a two-car garage. However, after these 18 years of journey, Amazon is considered as one of the largest online retailers in the world, selling everything from books, CDs, toys, tubas and golf carts to dishwashers and diapers. Despite the economic recession, online retailing in the U.S. grew 11% in 2009, according to a March 2010 report from Forrester Research. More than 150 million people– about two-thirds of all Internet users in the U.S.– bought something online in the year 2009 (Webley, 2010). Moreover, today, most brick-and-mortar stores have an online counterpart. With faster connections and better technology, the online shopping sector has been growing and gaining immense popularity.

Advantages and Challenges of Online Retailing:

Many people favour shopping online over going to the store for convenience and price comparison opportunities. From the retailer point of view, it can be argued that an online retailing can make faster sales and profits than a brick and mortar shop. This is because selling online offers the advantage of time and business hours–twenty four hours a day, seven days a week. It also allows retailers to display their merchandise in any part of the world without additional expenditure. This advantage lets online retailers to expand their market globally or target an extremely focused segment. Although it was the notions that a retail store on Main Street may never dream to compete with a national chain retailer, it is no longer a reality. They can compete now due to this online platform. This platform offers them a generous level playing field against the competitors.

Apart from these advantages, security issues are one of the biggest disadvantages of online retailing. Internet hacking and lack of privacy made shoppers skeptical about online shopping. They do hesitate to provide their personal and credit card information and this restrain many consumers to go for online shopping. In addition, the absence of touch and feel senses while shopping online are also making customers dubious about trusting the online retailer. Therefore, retailers that sell online only have to work even harder than the traditional retailer to build trust and relationships with the customers. Personal interaction is limited while selling online and store owners may find it very difficult to keep shoppers coming back. Moreover, as online retailers are selling to customers across the continents, this increases the difficulty and cost of delivering the goods.

Amazon's Business Model and its Major Competitors:

A new business model is considered to be an innovation if it stretches the existing economic pie; either by attracting new customers or by encouraging existing customers to consume more (Markides, 2006). In this facet Amazon is considered to be a business-model innovator because it enlarged the economic pie in both directions by attracting new customers through offering new means of purchasing and by cross-selling to its existing customers. The philosophy of continuous innovation, adoption of sophisticated enabler technology are the central pieces of Amazon's business model (Constantinides, 2004) contributing to its ongoing successful relationship with the value chain partners e.g. suppliers, customers.

As an innovator Amazon is using the mixed business model comprised of both mark-up and fee for service (Lumpkin and Dess, 2004). It is adding value in marketing and sales rather than production by acquiring products, marking up the price, reselling them at a profit and by leveraging its transaction capabilities for other strategic partners thus generating revenue in the form of charging fee. This mixed business model of Amazon has four strategic underpinnings: convenience, selection, service and price as illustrated by Grant (2000). The single trading platform, user chosen communication devices (Hofacker, 2008), wide product mix, two-sided markets with mutually beneficial exchange (Eisenmann et al., 2006), various order placing and payment facilities, economies in terms of scale and scope are helping Amazon to fulfil its strategic underpinnings.

The innovative business model with continuous technological development offers Amazon an advantage over its competitors in terms of cost. This is reflected in their heavily discounted (low cost provider) offerings. For example, Amazon routinely discounts books 20 percent or even more. In a typical battle with major retailers, for example, if Wal-Mart announces that it would reduce pre-order prices of 10 highly demanded hardcover books to only \$10, Amazon would surely respond by lowering the price to \$9 (Lule, 2012). Customization is another

key aspect of Amazon's business strategies. For example, Amazon is offering customised web enabler with individual offers based on the customer's past purchase record and preferences. Initiatives like this can be tagged as the pursuance of differentiation strategy (Amazon.com, 2008).

Amazon primarily emerged to become the world's largest online book retailer in the beginning; however, it had to diversify into other product categories by seeing the opportunities there. Thus it later becomes the largest online retailer of the world. By expanding into the other product categories beyond the books, it broadens its competitors list from traditional book retailers notably Barnes & Noble (B&N), Borders to e-commerce auction sites like e-bay, other retail store like Wal-mart and manufacturer like Apple. Retailers and companies like these are posing the majority of the competitive hurdles to Amazon in an effort to retaliate and gain the market share that they have lost to Amazon (Amazon, 2008).

As a competitor Border initially partnered with Amazon and that partnership continued for 7 long years. In 2008 Border decided to open its own online store with lots of new and early practiced offerings used by Amazon and B&N notably the magic shelf, staff picks, personalized recommendation and free shipping services of purchases over USD25 respectively (Yahoo Finance, 2008a). E-bay, primarily an online auction site is also giving a very hard time with its auction scheme on thousands of products. They have emerged as one of the strongest players in the e-business. However, Amazon still enjoys competitive advantage over B&N and Borders with its wider offerings and customer base and by launching their own auction site it is preparing itself to fight head to head against E-bay.

Investor Attractiveness and Sustainability:

Till today individual stock market investors are dubious about the prospects of shareholder value creation from the internet (Jackson, 2008). This is mainly due to the high number of high profile losers than winners over the last ten years. One of the notable exceptions among the winners is Amazon, which builds an empire of a billionaire business and a database of millions of customers in a short period of time (Muller, 2007). However, the nearly 13 years wait after launching to enjoy its first profit in 2001 resulted in lost patience and confidence of a fair number of investors (Global Market Information Database, 2008).

Amazon's vision lies in long term profitability which is considered to be the key for successful online retailers (Eisenmann et al., 2006; Mahajan and Venkatesh, 2000). Although the financial analysts projects to have a 5-year sales growth of 24% for Amazon, the operational margin is expected to remain close to 4% (Muller, 2007). This financial scenario is not exciting to investors compared to other online and offline competitors like e-bay and Wal-Mart (Table 01).

**Table 01: Comparison on Financial Measures-
Amazon, E-bay and Wal-Mart**

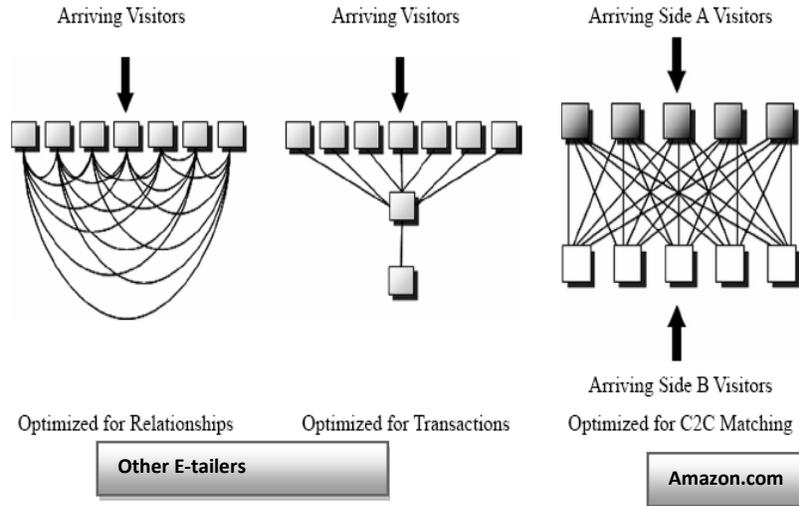
	Amazon	E-bay	Wal-Mart
Profit Margin	3.2%	5.32%	3.33%
Operational Margin	4.44%	25.80%	5.84%
Return on Equity	55.73%	3.82%	21.24%

Source: Yahoo Finance, 2008a, 2008b, 2008c

However, the promise that investors can take from this gloomy financial statements is the high return on equity. Meanwhile in the stock market, Amazon's stock price volatility is extremely high where the difference between the lowest and highest stock price was 65% in the last 52 weeks (Nasdaq, 2008). The same variability can be observed in its revenue stream where it had recorded its highest profit in 2004 with USD 588 which fall dramatically in 2005 and 2006. It has started to regain from 2006 and since 2007 Amazon's revenue had reached more than USD 10 billion (Amazon, 2008). Till now Amazon's sole efforts and strategies are focusing on building a leading and sustainable online platform that can promise the maximisation of shareholder revenue in the long run. Their customer base and sales commands their success whereas the bottom line statement tells a different story therefore it is too early to say they are an unmixed success for the investors.

Amazon has been the first to introduce the online book retailing, one-click ordering system, comparison shopping, collaborative-filtering technology (Mallahi and Johnson, 2000), community based selling practice (Campenhausen and Lübben, 2002) thus reaping the benefits of being the first mover and owner of a strong brand. It is especially successful in developing and employing a two-sided exchange markets through its interactive interface among consumers (Figure 01). Hence it performs the role of a matchmaker rather than concentrating on optimizing the relationships or transactions like other e-tailers (Hofacker, 2008).

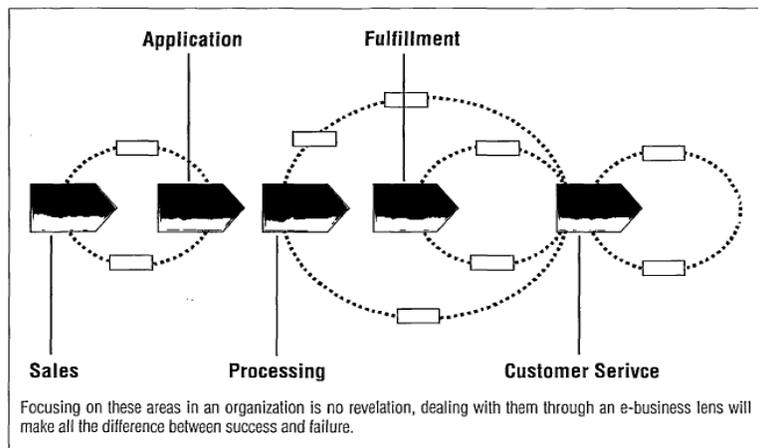
Figure 01: Two-sided exchange interface of Amazon vs. relationship and transaction focused interface.



(Adapted From: Hofacker, 2008)

Amazon is outperforming the competitors in all the five key areas where the success of e-business lies (Figure 02). It updates thousands of new records everyday thus armed itself with a huge customer database. For Amazon the lead time of customer order to the beginning of the fulfilment process is an amazing nine seconds (Serif, 2000). Moreover, various payment and delivery options, free music downloads for sampling before buying, wireless access etc. are ensuring the desired customer service needed to be a world class champion.

Figure 02: Five Key Areas of E-business Success



(Adapted From: Serif, 2000)

Amazon have all the weapons to be a sustainable leader in e-tailing including world leading trading platform, strong brand name, efficiency in customer order processing, fulfilment and service, continuous innovation and continuous diversification strategy. Meanwhile, the efforts to diversify too much may put itself in the danger of losing customer focus and confused brand positioning (Euromonitor International, 2008). In addition, cost reduction and achieving sustainable profitability would continue to be the greatest concern for Amazon in the future.

Amazon's Worldwide Success:

The exponential growth of worldwide internet adoption coupled with advancement in information and communication technology and maturation of big markets like US has forced many e-tailers including the leader Amazon to expand the operation from its comfort zone namely the US market (Euromonitor International, 2008; Javalgi et al, 2005). As of 2013, Amazon has successfully penetrated in both mature and emerging markets like UK, Australia, Canada, Japan, Germany, France and China. In total this number is 200 countries around the world (Narayanaswamy, 2013).

As a leader in the online medium Amazon duly acknowledge and accommodate cross-cultural differences, use of localised web communication strategies which are fundamental for e-commerce companies when they expand beyond national borders (Luna et al., 2002; Lynch et al., 2001 and Singh et al., 2004). Although Amazon is particularly successful in English speaking countries notably Canada and UK (85% market share of the online book retailing industry) (Euromonitor International, 2007 and Richardson, 2008) it is also sensitive in incorporating country-specific displays (e.g., colour, symbol and graphic) in other countries.

In spite of the huge potential of the e-commerce business, an enabling environment equipped with availability of secured payment method, adequate internet access, universally accepted transaction law are crucial for the industry to grow (Torre and Moxon, 2001). Being the industry leader, Amazon's expansion effort is therefore highly affected due to the absence of adequate enabling environment, slower growth thereby lower return from the emerging markets and less technology readiness of people of these emerging markets.

Porter's Five Competitive Forces:

With a mission "to be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online, and endeavours to offer its customers the lowest possible prices," Amazon continues to increase its profitability (amazon, 2012). However, competitive threats by giant competitors including Apple Inc., Wal-Mart and Barnes and Noble Inc. are eroding the profits of Amazons. In addition, the diverse presence of these strong competitors is making the industry increasingly stagnant and fragmented. To reshape the competitive forces thus to remain competitive and sustain profitability in such situation Porter (2008) have suggested some strategies. These are: firstly,

neutralization of the supplier power and standardize specifications for parts so that company can switch more easily among vendors. Secondly, expand the company's service base so that it would be difficult for the customers to switch to another service provider. Thirdly, high investment in product differentiation so that it is significantly different from rivals. Fourthly, elevation of fixed costs of competition can discourage new entrants and finally, offering of better value through wider product accessibility to limit the threat of substitutes. Porter (2008) claimed that the use of these tactics designed specially to reduce the share of profits leaking to other players.

The strength of the competitive forces affects prices, costs, and the investment required to compete thus the forces are directly tied to the income statements and balance sheets of industry participants. Moreover, the point of industry analysis is not to declare the industry attractive or unattractive but to understand the underpinnings of competition and the root causes of profitability. Therefore, examination of the five competitive forces in the case of Amazon will help to understand the underlying factors of Amazon's profitability thus the extent of its attractiveness as a leading online retailer.

PORTER'S FIVE FORCES ANALYSIS ON E-COMMERCE INDUSTRY'S ATTRACTIVENESS

In today's interconnected world customers are highly empowered and active enabler rather a mere listener and passive reactor. Cashing on this and above all leveraging on its capability, brand, business model and customer equity Amazon has stepped up from being a mere online book retailer to the biggest one-stop shopping place of the world. This has impacted the whole e-business industry especially its attractiveness. To find out the e-business industry's attractiveness therefore an analysis of the Porter's five forces is performed in this section.

Rivalry among Existing competitors:

Amazon.com has expanded tremendously as the world's largest online retailer (Hof, 2006) by offering dozens of products and services either sold by the company or by the third parties. Thus, Amazon.com faces competition not only from other online bookstores but also from the other industries thereby widening the scope of competition geographically. This intensity of competition is putting increased pressures for price discounting, (Porter, 2001) which is eventually reflected in Amazon's low price strategy. Nevertheless, it is also noteworthy that the brick and mortar companies with high brand equity, long term customer relationship management and cost advantages can outperform Amazon through successfully leveraging their existing capabilities to the online business (Shin, 2001).

However, Amazon's brand equity, both upstream and downstream distribution diversification, innovative use of technology and maintenance of customer database to facilitate repeat purchase are offering Amazon a tremendous shield

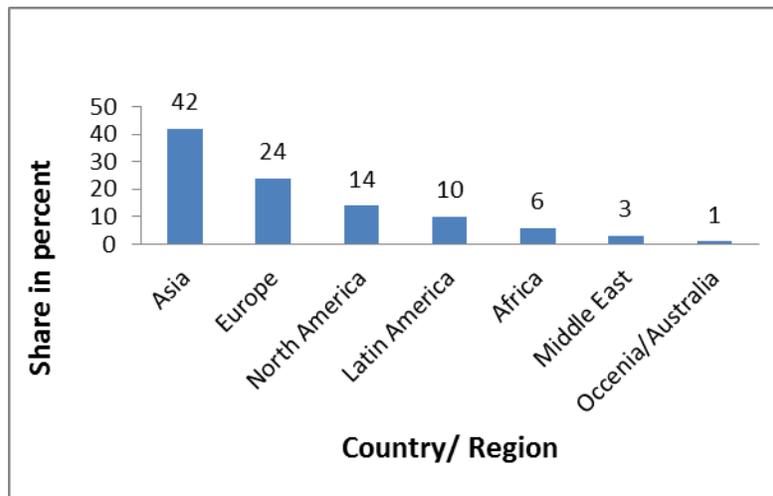
against competitors' effort to eat its market share. In addition, these are likely to create a problem of path dependency for competitors to imitate.

Threats of New Entrants:

Online retailing made it possible to serve worldwide customer segments with the same fixed costs due to the non-existence of physical establishment, less sales force. Hence it gives an opportunity to low investment companies to start their business online (Shin, 2001). Although as a first mover Amazon.com invested huge amount of money and time to build the technology and market awareness, the relatively non- patentable nature of its innovation are attracting higher number of new comers to free ride on its developed technology. Moreover, as the dynamic e-business environment demands continuous and fast innovation, the time gap between approval of patent by Amazon and technological imitation by competitors is very low. This also facilitates the stated free riding by competitors (Mellahi and Johnson, 2000).

As per the *Internet world stats* (2011), 1.966 billion people had access to Internet at the end of 2010. At the same time in 2002 this figure was merely 580 million. Within this timeframe the African continent had the fastest growth (i.e. 2357 percent). In terms of number of users China had the largest number of online users at 420 million, followed by US at 239 million, Japan at 99 million, India at 81 million and Brazil at 72 million (Figure 03).

Figure 03: Share of Online World Population (percent)



Source: Internet World Stats, June 2010

A survey by the Nielsen (2008) revealed that 85% of the world online population have used internet to make a purchase and more than half of internet users are regular online shoppers. Therefore, the increasing demand from customers is

sidestepping the need for conventional channel (Porter, 2001) and increasing the attractiveness of the industry for newcomers. However, being the innovator and first mover, Amazon enjoys some advantages over its competitors which can be termed as entry barriers for the new entrants. For instance, Amazon.com is capitalising on its brand equity by diversifying into other online domains thereby achieving not only economies of scale but also economise of scope. The customer database that Amazon builds during its expedition helps in forecasting demand more accurately. In addition, it helps in proactively meeting customer future demand. Overall, these activities are aligned with its customer centric vision.

Bargaining Power of Buyer:

The products sold by Amazon.com are mostly standardized products (Books, CDs, DVDs and Toys) and very little differences in features (as both Amazon and its competitors sell the same suppliers products). Moreover, low transaction costs, easy, speedy, comparative and convenient shopping and 24/7 access to products are offering more options to customers. Therefore, buyers are facing few switching costs because it requires only a few clicks to find and compare different retailers. Thus, to retain existing customers and attract new customers online retailers need to invest more on marketing activities. However, this reduces their profit margin and increases pressure on cost structure. All these manifest the high bargaining power of buyers over online retailers.

However, Amazon's continuous innovation, wider selection of products, efficient direct and indirect delivery to customers and secure payment systems create a structural tie (Kotler, 2001) between online buyers and Amazon.com. Thus, the customer felt high psychological switching costs (Mellahi and Johnson, 2000) and reluctant to switch to another web content or layout once they are used to shop at Amazon.com (Machlis, 1998). Concerning books, it is difficult for a reader to find all related books on a single topic in one bookshop. Amazon.com provides the readers a wealth of information on that topic thereby reinforcing the customer dependency on them. Amazon leveraged this strategy while offering other product categories by using its unique platform.

Bargaining Power of Suppliers:

Powerful suppliers-the flip side of powerful buyers can capture more values by charging higher prices especially when the input is very important to the buyers (Porter 2008). For instance, the publisher of bestselling books has high bargaining power over Amazon due to the high demand of its books. However, Amazon has extended its business scope from online book retailer to diversified product category which reduces their dependency on few retailers. Amazon.com also formed partnership termed as co-branded web site with suppliers like toysrus.com (Tedeschi, 2000) and Ingram Books (Hansell, 2001) to handle merchandising and fulfil order consistently for toys and books. All these are prompting higher customers' reliance on Amazon.com and further lowering suppliers bargaining potential against Amazon.com.

The book publishing industry in the United States is one of the oldest and most fragmented industries with over 2500 publishers (Grant, 2000). Amazon.com business operations provide these non-concentrated publishers a broad range of potential buyers across the world. As every single publisher has limitation in terms of volume of production, it is not cost effective for them to establish bookshop either physically or online. Thus, due to the suppliers' inability of upstream integration (Porter, 2008), online retailer like Amazon.com increases the supplier switching cost and enjoys substantial bargaining power against suppliers.

Threat of Substitutes:

The adoption of diversification strategies by Amazon increases the threats of substitutes not only from its direct online competitors but also from stand alone independent brick and click companies including Wal-Mart, Target, and Costco. According to Porter (2008) the threat of a substitute is high if companies offer an attractive price performance trade-off of a product. Similarly, Amazon.com is increasingly threatened by the substitute services like online video rental services of Netflix and internet video site Google's You Tube (Porter, 2008). However, in an effort to defend, Amazon.com also indulged into the subscription business. In particular they are delivering digital content through mail and broadband and various unlimited price models which is termed as 'Profiting from the Long Tail' by Goldstein and Goldstein (2006).

Another initiative of Amazon tagged as 'commission based affiliated program' (e.g. other companies direct their customers to Amazon site for a commission) is also reducing the threat of substitutes. In today's fast paced hectic lifestyle consumers' demand all possible ways to save time and in this facet online shopping is a very useful medium for them. In the U.S., by 2014 online sales are expected to reach \$248.7 billion with a compounded growth of 10% is forecasted for the next five years. In Western Europe sales are expected to reach 14 billion euros (\$155.7 billion), a growth of 11% percent annually (Forrester Research, 2011). Therefore, it can be argued that increasing customer dependence on web retailing, and brand value of Amazon.com may reduce the threat of substitutes for Amazon.com substantially.

CONCLUSION

Although every company have an idea about the average profitability and evolution of its industry, understanding of the five competitive forces that shape industry is the first step of developing competitive strategy. A company can incorporate industry conditions into strategic decisions when it clearly reveal the impact of the five competitive forces and know the underlying reasons of their profitability. The five competitive forces exposes the company's strength and weakness, the environment where the company actually operates and the company's market standing against the rivals, buyers, suppliers and possible new

rivals. More specifically, understanding of the five forces can guide managers to take strategic actions and its successful implementation. It dictates, when to reposition in the market, how to anticipate new challenges from new entrants, how to exploit new opportunities and strengthen the company position for the upcoming threats. All these can work as defense as well as attacking strategies while competing with direct and indirect competitors.

In the current context, Amazon is continuously expanding the scope of its business by attracting new customers as well as retaining existing customers. They are offering new means of purchasing to the new customers as well as cross-selling to its existing customers. Amazon's innovative and technology based new business model, both upstream and downstream distribution diversification, facilitated and still facilitating in defending its market share. However new firms are continuously attracted to enter into online retailing primarily for a number of reasons including quick and easy imitation of online retailing format, low lead time for patenting the dynamic business model of Amazon, worldwide acceptance and diffusion of online purchasing. Meanwhile, as a first mover in the online retailing industry Amazon invested heavily to build the technology and market awareness. This eventually creates strong entry barriers for the new entrants.

Online retailers like Amazon mostly sell standardized products and open for 24 hours and 7 Days. The proliferation of online retailing resulted increases the bargaining power of customers even more with very little switching cost. However, the customers of Amazon felt high psychological switching costs and reluctant to switch to another web content due to Amazon's continuous innovation, wider selection of products, efficient direct and indirect delivery to customers and secure payment systems. In an effort to lessen the buyer bargaining power, Amazon strategically took few steps that helped them to reduce the strong bargaining power of the book publisher. Though Amazon introduced itself as an online book retailer initially, they diversified their product categories and balanced the bargaining power between them and the suppliers. For example, Amazon co-branded their web site with suppliers like toysrus.com and Ingram Books and sorted out alternatives of the suppliers and products. Conversely, the advantages of lessening the bargaining power of buyer and supplier through the diversification strategy, alternative suppliers, partnership comes at the high costs of threat of substitutes for Amazon. Nevertheless, it is expected that increasing customer dependence on web retailing, and brand value of Amazon.com may reduce the threat of substitutes for Amazon.com substantially.

In 2009, retail e-commerce amounted to USD 348.6 billion- this is only 2.5 percent of the worldwide retail sales (Internet World Stats, 2010). Companies that are enjoying the remaining 95 percent retail sales are also thinking about flying in the wireless wave because this is becoming the next rule of doing business. Companies like Amazon with its highly sophisticated and well-built

trading platform are at the forefront to reap the benefit most when the brick and mortar companies will take their time to build a trading platform as superior and as sophisticated like Amazon. Meanwhile, the disruptive nature of the e-commerce technology demands continuous innovation and it requires investment and time. Therefore investors who are investing in e-commerce companies have to wait to receive desired return from their investment. This is even more true for big giants like Amazon. The Porter's industry attractiveness analysis demonstrates that this industry is highly saturated with fierce rivalry, higher threats of new entrants, greater buyers bargaining power and low substitutes and supplier bargaining power. Even though the industry is highly competitive and fragmented, a visionary, innovative, customer service centered and focused company like Amazon can do remarkably well.

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