

AMAZON, E-COMMERCE, AND THE NEW BRAND  
WORLD

by

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Amazon, E-commerce, and the New Brand World

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This thesis evaluates the impact of e-commerce on brands by analyzing Amazon, the largest e-commerce company in the world. Amazon's success is dependent on the existence of the brands it carries, yet its business model does not support its longevity. This research covers the history of retail and a description of e-commerce in order to provide a comprehensive understanding of our current retail landscape. The history of Amazon as well as three business analyses, a PESTEL analysis, a Porter's Five Forces analysis, and a SWOT analysis, are included to establish a cognizance of Amazon as a company. With this knowledge, several aspects of Amazon's business model are illustrated as potential brand diluting forces. However, an examination of these forces revealed that there are positive effects of each of them as well. The two sided nature of these factors is coined as Amazon's Collective Intent. After this designation, the Brand Matrix, a business tool, was created in order to mitigate Amazon's negative influence on both brands and its future.

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## Introduction

Since the inception of the United States, Americans have been obsessed with acquisition. This obsession created the concept of consumerism, defined as “the preoccupation with and the inclination toward the buying of consumer goods”.<sup>1</sup> American culture supports the inherent desire for individuals to consume beyond their means with the excessive amount of product offerings and copious amount of advertising that convinces consumers to continuously upgrade their belongings. Peter Stromberg demonstrates the pervasiveness of consumerism in American culture in his article, “Elvis Alive?: The Ideology of American Consumerism”, when he writes, “The central sacrament of consumerism is the purchase, its daily ritual is entertainment, and its scripture is advertising”.<sup>2</sup> The use of this religious comparison highlights the integration and centrality of consumption into our daily lives. It is important to note that consumerism does not relate to the consumption of goods that satisfy basic humans needs, the lowest tier of Maslow’s hierarchy of needs, but the purchasing of goods in an attempt to satisfy much higher levels of demand such as self-actualization.<sup>3</sup> Consumers purchase products to gain fulfillment, but consumer trends and preferences are constantly changing, impeding individuals from gaining complete satisfaction. This leads consumers to partake in purchase after purchase, chasing a sense of self value that is impossible to attain through materialism.

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<sup>1</sup> Consumerism. (n.d.) In *Merriam-Webster’s collegiate dictionary*.

<sup>2</sup> Stromberg, Peter. “Elvis Alive?: The Ideology of American Consumerism.”

<sup>3</sup> Etzioni, Amitai. “The Crisis of American Consumerism.” *The Huffington Post*, The Huffington Post, 4 Sept. 2012.

The rise of e-commerce has significantly impacted retailer's business model's as well as intensified consumerism. The increased trend of online shopping is reshaping the footprint of retail, replacing traditional brick and mortar stores and in-store customer service with an efficient yet more impersonal shopping experience. While the retail industry consistently evolves, the rise of e-commerce is arguably its most significant transformation yet. The saturation of consumer reviews and product descriptions online allow consumers to remain in the comfort of their homes to purchase products, making their most important product decisions with the click of a button. Additionally, the opportunity for nearly instant gratification, with companies offering shipping and delivery on the same day as purchase in some cases<sup>4</sup>, is a customer experience that was unimaginable in the recent past. The evolution of retail is a natural process, but the induction of e-commerce is a revolution.

While there is a copious amount of e-commerce companies, the most noteworthy of them all is Amazon. In the article, "Assessing the damage of the 'Amazon Effect', author Steve Dennis exemplifies the impact of Amazon on the retail industry. Dennis refers to Amazon as an "800-pound gorilla", crediting Amazon with reshaping shopping dynamics, disrupting supply chains, and bearing immense pricing and margin pressure on any market segment the company chooses to enter.<sup>5</sup> Amazon's integration into a market does not go unknown to its competitors or consumers with these areas of impact greatly effecting the future success of the companies within

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<sup>4</sup> Wei, Marlynn. "10 Signs You're Addicted to Online Shopping." *Psychology Today*, Psychology Today, 4 Nov. 2015.

<sup>5</sup> Dennis, Steve. "Assessing The Damage Of 'The Amazon Effect'." *Forbes*, Forbes Magazine, 21 June 2017, [www.forbes.com/sites/stevendennis/2017/06/19/should-we-care-whether-amazon-is-systematically-destroying-retail/#30744d56b1f0](http://www.forbes.com/sites/stevendennis/2017/06/19/should-we-care-whether-amazon-is-systematically-destroying-retail/#30744d56b1f0).

Amazon's chosen markets. For example, Amazon's influence in differing retail channels such as the book industry and most recently, grocery stores with its recent acquisition of Whole Foods, has resulted in store closings and bankruptcies.<sup>6</sup> Dennis acknowledges that Amazon is not to blame for department store failures, but its impact cannot be ignored. In 2016, the company accounted for 53% of all the incremental growth in online shopping and a study found that nearly half of online searches begin on Amazon.com.<sup>7</sup> Furthermore, Amazon's unusual business model makes it nearly impossible to compete. The company is not required by its investors to make profits and provides large subsidies to its delivery operations.<sup>8</sup> This furthers the distance between Amazon and its competitors who lack these unconventional practices.

Amazon's breadth not only impacts its competitors, but also drastically influences the brands that the company depends upon. Amazon's influence on sales, search, advertising, and product development directly correlates to how brands are "discovered, evaluated, purchased, and improved".<sup>9</sup> In some ways, this influence is positive, increasing brand awareness and accessibility, but there is an extremely negative influence as well; brand dilution. Amazon's homogenization of the market via its business model devalues the very brands that drive traffic to its website.

This negative influence of Amazon's platform does not only impact brands, but also Amazon's future. As brands lose their cache, they are less desired, which in turn makes shopping at Amazon less desirable. The company's negligence to support

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<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Hansen, Joseph and Thomson, James. "The Impact Amazon Has (or Soon Will Have) on Your Brand: Do You Have a Plan?" *Entrepreneur*, Entrepreneur, 10 Oct. 2017, [www.entrepreneur.com/article/302410](http://www.entrepreneur.com/article/302410).

brands, taking aggressive actions to cut corners, may result in a “race straight to the bottom”.<sup>10</sup> Without the draw from the brands that consumers know and love, Amazon is left as a delivery service without a compelling offering, facing a grim future if preventive action is not ensued.

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<sup>10</sup> Godin, Seth. “The Race to the Bottom.” *Seth's Godin's Blog*, Typepad, 20 Aug. 2012, [sethgodin.typepad.com/seths\\_blog/2012/08/the-race-to-the-bottom.html](http://sethgodin.typepad.com/seths_blog/2012/08/the-race-to-the-bottom.html).



# Chapter 1: What is E-commerce?

## Evolution of Retail

Retail has significantly evolved over time. With that being said, the current retail environment does not represent the death of retail, it is just an example of another major evolution within the industry. These changes in the retail industry derive from technology advancements and increased access to consumer data. The more capabilities and knowledge retailers possess to meet the needs of their customers, the more streamline and direct their retail channels become. This results in significant changes in product and service marketing and distribution strategies, generating cyclical changes in the retail industry over time.

With the outreach and access to information provided through the internet, e-commerce has become the preferred retail channel for many consumers. E-commerce is defined as “the activities that relate to the buying and selling of goods and services over the internet”<sup>11</sup>, allowing consumers to buy products without leaving the comfort of their home. E-commerce is now a very familiar retail channel to make product decisions, with consumers expecting their favorite brands and companies to sell their products online. However, such an efficient and timely purchasing process could not have been imagined not too long ago. An examination of the evolution of retail over time highlights the ever changing nature of retail and the underlying reasons for its transformation. Additionally, a review of retail’s history highlights how differentiated

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<sup>11</sup> “Electronic Commerce - Ecommerce.” *Investopedia*, Investopedia, 17 Nov. 2017, [www.investopedia.com/terms/e/ecommerce.asp](http://www.investopedia.com/terms/e/ecommerce.asp).

the industry has become with the recent shift to e-commerce, which has disrupted the norm more than any other retail platform before.

While the retail industry has transformed considerably over time, the thing that connects each retail period to another is money. Dating back to 1200 BC, archaeologists have found cowrie shells that marked the monetary value of commercial transactions.<sup>12</sup> The trading that took place at this time was most likely for necessities, but wealthier members of society used the shells to purchase luxurious items such as harvested vegetables and fresh fish as well.<sup>13</sup>

In 300 AD, marketplaces were first introduced. The pop-up markets were developed in order to raise money. At this time, one of the largest pop-up markets was the Foire St. Germain in Paris which was a fundraiser for the Abbey of St. Germain.<sup>14</sup> These markets were the earliest example of a shopping mall, allowing consumers to casually browse and compare the items being sold, enhancing their shopping experience overall.

By the end of the nineteenth century, most consumers no longer had the means to produce their own food, which gave rise to the “high street”.<sup>15</sup> On this street, the market stalls transformed into permanent store fronts and home delivery as well as store credit were introduced.<sup>16</sup> During this time, store owners discovered that the longer customers stayed in their stores, the higher their profits became.<sup>17</sup> This correlation

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<sup>12</sup> “A Brief History of Retail.” *OCS Retail Support*, Outsourced Client Solutions, 20 Nov. 2017, [www.ocsretailsupport.co.uk/latest-news/brief-history-retail/#renaissancemarketplaces](http://www.ocsretailsupport.co.uk/latest-news/brief-history-retail/#renaissancemarketplaces).

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.*

<sup>16</sup> *Ibid.*

<sup>17</sup> *Ibid.*

incentivized the owners to brainstorm ways to encourage consumers to remain inside, developing the ideas to install escalators and convert women's bathrooms into lounges.<sup>18</sup>

The late nineteenth century also gave rise to mail-order catalogs, including Montgomery Ward and Sears & Roebuck. These catalogs capitalized off of the expansion of the US mail and package delivery system, which allowed for consumers in urban areas to receive packages sooner and consumers in rural areas to receive packages for the first time.<sup>19</sup> Aaron Montgomery Ward founded Montgomery Ward in 1872 and laid out the path for future mail-order catalogs to follow.<sup>20</sup> Ward utilized the railroad system to deliver products to consumers, giving consumers the opportunity to save money while providing them with a larger product selection.<sup>21</sup> Consumers were not limited to the products that their local stores had in-stock, they were able to purchase whatever product they desired.

While Montgomery was growing in popularity, a railroad employee known as Richard W. Sears, was taking notes on the new retail system and made a discovery that paved the way for his future catalog.<sup>22</sup> During his employment, Sears noticed that wholesalers often had too much supply compared to consumer demand.<sup>23</sup> He took advantage of this observation by purchasing a variety of watches from a wholesaler below cost and then selling them at a higher price in order to generate a profit.<sup>24</sup> This

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<sup>18</sup> Ibid.

<sup>19</sup> Smith, Ernie. "How Sears and Montgomery Ward Changed American Shipping." *Atlas Obscura*, Atlas Obscura, 21 Feb. 2017, [www.atlasobscura.com/articles/sears-postal-service-catalogs](http://www.atlasobscura.com/articles/sears-postal-service-catalogs).

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

became the strategy that Sears and his partner Alvah C. Roebuck employed in their development of the Sears & Roebuck catalog, which eventually outpaced Montgomery's success.<sup>25</sup>

While both catalogs were successful, their growth was limited by their inability to reach rural customers because they did not have access to mail delivery. A lack of infrastructure inhibited consumers from going to pick up their mail from specified locations, only allowing consumers with the financial means to pay for individual delivery to reap the benefits of mail-order catalogs.<sup>26</sup> However, there was an eventual solution to this problem called "rural free delivery", which gained support by a push from farmer advocacy groups.<sup>27</sup> Under rural free delivery, farmers were able to obtain free package delivery by sending a petition along with a description of their community's infrastructure to their states' congressman.<sup>28</sup> This demand for free delivery was met with resistance from congress because of its high costs, but finally came into fruition in 1902.<sup>29</sup> Initially, the shift to rural delivery was slow due to the need for the creation of roads, but by 1913 the U.S. postal service was delivering domestic post packages to rural consumers directly.<sup>30</sup> This new service significantly improved business, increasing Sear's sales fivefold.<sup>31</sup>

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<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> The Editors of Encyclopaedia Britannica. "Rural Free Delivery." *Encyclopædia Britannica*, Encyclopædia Britannica, Inc., 24 May 2016, [www.britannica.com/topic/Rural-Free-Delivery](http://www.britannica.com/topic/Rural-Free-Delivery).

<sup>29</sup> Smith, Ernie. "How Sears and Montgomery Ward Changed American Shipping." *Atlas Obscura*, Atlas Obscura, 21 Feb. 2017, [www.atlasobscura.com/articles/sears-postal-service-catalogs](http://www.atlasobscura.com/articles/sears-postal-service-catalogs).

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

The commercial delivery of products to consumers' homes forever changed the retail industry. The industry was further impacted by the supreme court case, "Quill Corp vs. North Dakota", which set the standard for companies to not have to pay taxes on sales made in states where they had no brick and mortar presence.<sup>32</sup> The passing of this law gave the retail industry an entirely new potential and this potential was captured immediately by a businessman known as Jeff Bezos; the mastermind behind an enterprise called Amazon which was based on this advantageous loophole.<sup>33</sup> While the history of Amazon and its immense success will be examined later, it is important to note at this time that "Amazon is so big that it gets the US postal service to deliver on Sundays".<sup>34</sup> Both Sears and Montgomery made a significant impact on retail and the footprints of their success remains evident in the current retail industry today.

Now, returning to the evolution of retail, at the beginning of the twentieth century, the local corner store was the most popular retail channel.<sup>35</sup> Consumers would walk to their nearest store and stock up on the amount of produce they were able to carry home. The year, 1916, marks the introduction of self-service stores, allowing customers to browse on their own time and select the items for themselves.<sup>36</sup> Prior to the establishment of a Piggly Wiggly in Memphis, Tennessee, consumers told a store clerk which items they wanted and they were given to them over the counter.<sup>37</sup> This new system paved the way for the grocery stores we are familiar with today.

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<sup>32</sup> Ibid.

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> "A Brief History of Retail." *OCS Retail Support*, Outsourced Client Solutions, 20 Nov. 2017, [www.ocsretailsupport.co.uk/latest-news/brief-history-retail/#renaissancemarketplaces](http://www.ocsretailsupport.co.uk/latest-news/brief-history-retail/#renaissancemarketplaces).

<sup>36</sup> Ibid.

<sup>37</sup> Ibid.

The term “retail therapy” was coined in the early twentieth century as well.<sup>38</sup> Department stores gained popularity by designing elaborate displays and providing exceptional customer service to customers in order to heighten the value of the consumer experience overall.<sup>39</sup> In 1937, the shopping cart was introduced as a way to encourage consumers to buy more products and to stay in stores for extended periods of time, no longer leaving due to their inability to hold all their desired items in hand.<sup>40</sup> Furthermore, automobiles allowed for consumers to keep purchased items in their cars and refrigerators allowed for consumers to stock up on food purchases, granting consumers the ability to buy more in a single outing with ease.<sup>41</sup>

In the 1960’s, open air malls and mass retailers grew in popularity.<sup>42</sup> This surge in shopping preference is correlated to a boom in population growth, the expansion of suburbia, and the increase in television advertisements.<sup>43</sup> In the next decade, speed and convenience became a priority, giving rise to supermarkets and major chain stores.<sup>44</sup> These retailers allowed consumers to make all their purchases in a single destination at a competitive price.

The invention of the internet generated another change in the retail industry and arguably the most impactful alteration yet. The internet led to the development of e-commerce, allowing consumers to conduct a purchase from the comfort of their own

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<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid.

<sup>44</sup> Ibid.

home. The first online transaction was conducted in 1994 in which a consumer purchased a CD by Sting, marking the start of the retail revolution.<sup>45</sup>

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<sup>45</sup> Tuttle, Brad. "History of Online Shopping: What People Thought of E-Commerce in 1994 | Money." *Money*, Time, 15 Aug. 2014, [time.com/money/3108995/online-shopping-history-anniversary/](http://time.com/money/3108995/online-shopping-history-anniversary/).

## E-commerce Explained

E-commerce is quickly becoming consumers preferred shopping market. In 2016, global e-commerce was estimated to be \$1.9 trillion and is expected to grow to \$4 trillion by 2020.<sup>46</sup> In the United States, the e-commerce industry is expected to grow at an annualized rate of 9.3% over the next five years, reaching revenues of \$704.1 billion by 2022.<sup>47</sup> There are several reasons why e-commerce has gained such popularity. The rapid rise of the internet has granted companies within the industry the ability to reach millions of consumers without opening a single brick and mortar location. Furthermore, increasingly fast internet speeds across the globe and the growing adoption of mobile devices have greatly contributed to the consistent increase in online shopping's popularity.

E-commerce firms have also reached success due to economies of scale. The larger firms grow, the more discounted products and lower shipping rates they can offer. Decreasing wage expense is a key factor in this industry as well. As firms become more familiar with the necessary technology and as technology continues to advance, their need for a vast amount of employees to meet rising demand decreases.<sup>48</sup> While all of these factors have contributed to the e-commerce industry's success, not all of the success factors for the e-commerce industry derive from the business itself. In fact, consumer preferences play the biggest role in this industry's growth.

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<sup>46</sup>Dun and Bradstreet. (2018, March 12). *Internet & Mail-Order Retail*. Retrieved April 3, 2018, from Mergent Intellect database.

<sup>47</sup> Hadad, J. (2017, October). *E-commerce and Online Auctions in the US: IBISWorld industry report 45411a*. Retrieved from IBISWorld database.

<sup>48</sup>Ibid.



Consumers are able to shop on their own schedule, not restricted to store closing times and time limitations. A trip to the mall not only takes some planning, but also a considerable amount of time. Online shopping allows a consumer to engage in a transaction almost instantaneously. E-commerce also gives consumers access to a seemingly indefinite amount of product choices, providing consumers with the ability to find the lowest priced products as well as the ability to make product comparisons seamlessly.

There are a copious amount of competitors in the e-commerce business, however 20 companies account for about half on the revenue within the industry.<sup>49</sup> The largest competitor in this industry is Amazon with 21.1% of the market share.<sup>50</sup> Other major competitors include Apple Inc., E-bay, Target and Wal-Mart, however they hold less than 6% of the market share combined.<sup>51</sup> As the revenues continue to increase, the amount of enterprises in the e-commerce industry is expected to increase as well. In order for firms to effectively compete facing such saturation, it imperative to develop targeted marketing campaigns, continue to offer consumers with diverse product lines, implement new technology, and most of all prove that customer well-being and satisfaction is their number one priority.

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<sup>49</sup>Dun and Bradstreet. (2018, March 12). *Internet & Mail-Order Retail*. Retrieved April 3, 2018, from Mergent Intellect database.

<sup>50</sup>Hadad, J. (2017, October). *E-commerce and Online Auctions in the US: IBISWorld industry report 45411a*. Retrieved from IBISWorld database.

<sup>51</sup>Ibid.

## **Porter's Five Forces**

In order to provide a better understanding of the e-commerce industry, a Porter's Five Forces analysis is provided, accompanied by a description of the influence of each force on Amazon. This analytical framework created by Michael Porter represents five industry forces that influence competition within a specific industry, highlighting the underlying strengths and weaknesses of an industry overall. Porter's Five Forces is frequently applied as a determining factor for a future corporate strategy based on the discoveries of the analysis.<sup>52</sup>

### **Bargaining Power of Suppliers:** Moderate Force/Trend is moderate

Suppliers for e-commerce companies have moderate power. They have to abide by the e-commerce company's rules and guidelines when they reach an initial agreement. Despite the increasing number of e-commerce firms, there are not a lot e-commerce options for suppliers to gain significant brand recognition, which inhibits their power overall. If a supplier wants to earn the success its desire, it cannot afford to lose its spot on a major e-commerce retailer's site. However, some brands have more power due to their size and quality, having a substantial presence outside of their presence on an online retailer's separate website. These suppliers tend to be the ones that e-commerce firms covet the most because they draw the most customers to their site. Thus, supplier power remains a cautionary force.

Amazon is protected from the bargaining power of suppliers because suppliers want the visibility of holding a spot on Amazon's website. However, Amazon depends

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<sup>52</sup> "Porter's 5 Forces." *Investopedia*, Investopedia, 20 Nov. 2017, [www.investopedia.com/terms/p/porter.asp](http://www.investopedia.com/terms/p/porter.asp).

on the staple brands that receive immense customer loyalty to not only bring consumers to its site, but keep them coming. Amazon must support its suppliers, ensuring that its business model does not devalue the brands it carries or it could be left without the leverage that makes its site so esteemed.

**Bargaining Power of Buyers:** Strong Force/Trend is increasing

The bargaining power of buyers is high because buyers do not face switching costs from shifting to one online retailer to another. E-commerce firms are extremely competitive with its pricing; thus buyers can expect to experience similar pricing from retailers selling the same products or price decreases if they highlight a price discrepancy. Consumers also have lots of substitutes available to e-commerce firms, providing the opportunity for dissatisfied customers to change their preferred retail outlet. Furthermore, buyers have a substantial amount of power in the e-commerce industry because they are able to publically review products on the e-commerce websites. These reviews that replace in store employee product recommendations are extremely persuasive, guiding consumer purchase decisions and influencing their opinion on the e-commerce firm itself. Additionally, consumers have access to a significant amount of external information regarding products and services of online companies, providing buyers with the power to develop their own opinions about an e-commerce firm before even entering its site.

Amazon must focus on valuing its consumers because it has so much power in the e-commerce industry. Its success is incumbent on customer loyalty; thus it must ensure that its customers do not exercise their bargaining power due to dissatisfaction.

Amazon credits itself as a customer centric company, but it needs to continuously evaluate its practices to certify that it is meeting this title.

**Threat of New Entrants:** Weak force/Trend is decreasing

The concentration of large e-commerce retailers is low and highly fragmented.<sup>53</sup> There are a large number of smaller independent firms, but they do not have much of an influence on the larger retailers. It is relatively easy for prospective companies to start an e-commerce site, especially with the recent decrease in the initial costs and necessary skills to do so due to the growing familiarity of the industry. There are also online shopping platforms like Shopify and Squarespace that help potential e-commerce companies develop a site with minimal technical skills.<sup>54</sup> Furthermore, new entrants do not need to worry about a shortage of suppliers and possess the ability to limit price pressures through product differentiation or even making their own products themselves.

Amazon does not need to worry about new entrants in the market growing to its stature, but it should be concerned about smaller e-commerce firms with a niche in one of its product lines. A new firm will not take over Amazon's overall rank, but a new firm could perform better in one of its many business sectors.

**Threat of Substitutes:** Strong Force/Trend is moderate

The threat of substitutes in the e-commerce industry is high because consumers have the option to buy similar if not the same products through brick and mortar retailers. The convenience of online shopping encourages consumers to make their

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<sup>53</sup>Hadad, J. (2017, October). *E-commerce and Online Auctions in the US: IBISWorld industry report 45411a*. Retrieved from IBISWorld database.

<sup>54</sup>Ibid.

purchase via the internet, but the socialness and browsing capabilities of shopping in person will always threaten e-commerce firms.

Amazon faces an interesting dynamic within this force because its competitors offer substitutes to its business. Not only does Wal-Mart compete with Amazon in the e-commerce sector, but also provides consumers with brick and mortar locations across the world, providing Amazon consumers with an easily accessible substitute to its service. Additionally, Amazon has established brick and mortar locations and purchased Whole Foods due to the strength of this force. The company also has plans to continue to grow its physical presence in places that e-commerce has limited potential to grow.<sup>55</sup>

**Rivalry:** Strong force/Trend is increasing

There is intense competition among the e-commerce industry. Retailers in this industry are extremely aggressive due to the internal and external competitive forces they face. Internally, companies in this industry compete primarily on product lines, website navigability, price, and the provision of value-added services, especially shipping and delivery.<sup>56</sup> External competition derives from retail giants like Wal-Mart who provide consumers with brick and mortar locations spread across the U.S., offering a substitute to the e-commerce platform with the same products at the same low prices. Additionally, there are no barriers for consumers to switch from one e-commerce retailer to another, increasing the likelihood for consumers to shift their retailer

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<sup>55</sup> Trefis Team. "A Closer Look at Amazon's Brick-And-Mortar Ambitions." *Forbes*, Forbes Magazine, 29 Mar. 2017, [www.forbes.com/sites/greatspeculations/2017/03/29/a-closer-look-at-amazons-brick-and-mortar-ambitions/#e73a735348dd](http://www.forbes.com/sites/greatspeculations/2017/03/29/a-closer-look-at-amazons-brick-and-mortar-ambitions/#e73a735348dd).

<sup>56</sup> Hadad, J. (2017, October). *E-commerce and Online Auctions in the US: IBISWorld industry report 45411a*. Retrieved from IBISWorld database.

preferences to satisfy their ever changing needs. The competitiveness in the e-commerce industry is expected to increasingly intensify. According to IBIS world, “Over the five years to 2022, the number of industry enterprises will grow at an annualized rate of 10.8% to an estimated 226,028 companies”.<sup>57</sup> Retail has been revolutionized by the digital world and as more companies familiarize themselves with e-commerce, the industry will continue to grow.

While Amazon is the largest e-commerce company, it faces intense competition from Apple Inc., Wal-Mart, Target and E-bay, thus it is imperative for Amazon to remain innovative and customer centric in order to secure its place in this industry.

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<sup>57</sup>Ibid.

## Chapter 2: What is Amazon?

### History of the Company

While Amazon is referred to as the biggest everything store, the company evolved substantially over time in order to gain its present title as the largest online retailer in the world. The mastermind behind the enterprise is Jeff Bezos, who started to brainstorm ideas that morphed into the development of Amazon in the early 1990's.<sup>58</sup> Bezos was researching the internet for D.E. Shaw & Co.<sup>59</sup>, a global investment and technology development firm, when he discovered that books would be the perfect product to sell on the internet since book distributors already kept electronic lists of their books online. However, Bezos presented his plan to Shaw and was met with rejection. The company could not picture the future that Bezos staged.

Nevertheless, Bezos was confident in his plan, founding Amazon in Seattle in 1994. He named the company after the Amazon river in South America, envisioning that the company's size would eventually mirror the river's enormity.<sup>60</sup> After months of strategic planning and preparation, Bezos launched the company website in July of 1995 and well, the rest is history.

In just under a month, the company shipped books to every state in the U.S. and to 45 other countries, providing a small insight into the revolution that was yet to come.<sup>61</sup> Its early success is attributed to Bezos' hands on approach. He was so

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<sup>58</sup>Mergent Inc. (n.d.). *Amazon.com, Inc.:Company Details*. Retrieved April 4, 2018, from Mergent Online database.

<sup>59</sup> "Who Are We." *The D. E. Shaw Group*, The D. E. Shaw Group , [www.deshaw.com/WhoWeAre.shtml](http://www.deshaw.com/WhoWeAre.shtml).

<sup>60</sup> "Amazon Opens for Business." *History.com*, A&E Television Networks, [www.history.com/this-day-in-history/amazon-opens-for-business](http://www.history.com/this-day-in-history/amazon-opens-for-business).

<sup>61</sup> *Ibid*.

determined for the company to gain instantaneous momentum that he aided in its delivery service, helping assemble orders and driving packages to the post office.<sup>62</sup> Bezos had every intention of making his vision a reality, proving to the world that Amazon was here to stay.

In 1997, Amazon went public, increasing the awareness of the company and providing opportunity for investment. The company positioned itself as prominent book retailer after this breakthrough by becoming the exclusive book retailer on AOL and NetScape's commercial channel.<sup>63</sup> This same year, Bezos hand delivered the company's one-millionth order to a customer who ordered a Windows NT manual and a biography about Princess Diana in Japan.<sup>64</sup>

By 1998, the company began to expand its product lines. Amazon launched its online music and video stores while introducing toys and electronics to its marketplace. At this time, the company expanded globally as well. Amazon acquired online booksellers in the UK and Germany, highlighting the predatory nature of Amazon on its competitors early on. The company also acquired the Internet Movie Database (IMDb), giving Amazon the advertising resources required to sell DVDs and videotapes, a business it was unfamiliar with at the time. Furthermore, Bezos placed momentum on the company's expansion efforts by buying Junglee, a comparison shopping site, and PlanetAll, a company that focused on calendars, address books, and reminders. Amazon was growing rapidly, gaining so much attention that "its market capitalization equaled

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<sup>62</sup> Ibid.

<sup>63</sup> Mergent Inc. (n.d.). *Amazon.com, Inc.: Company History*. Retrieved April 4, 2018, from Mergent Online database.

<sup>64</sup> "Amazon Opens for Business." *History.com*, A&E Television Networks, [www.history.com/this-day-in-history/amazon-opens-for-business](http://www.history.com/this-day-in-history/amazon-opens-for-business).



the combined values of profitable bricks-and-mortar rivals Barnes & Noble and Borders Group, even though its combined sales were far greater than the upstart's".<sup>65</sup> In under four years, Amazon was already a force to be reckoned with, highlighting the company's potential for dominance from the start.

### **Additional Commentary**

After the acquisition of PlanetAll, Jeff Bezos commented on the brilliance of the company in a press release by stating, "PlanetAll is the most innovative use of the Internet I've seen. It's simply a breakthrough in doing something as fundamental and important as staying in touch. The reason PlanetAll has over 1.5 million members -- and is growing even faster than the Internet -- is simple: it creates extraordinary value for its users. I believe PlanetAll will prove to be one of the most important online applications".<sup>66</sup> This comment would lead individuals to believe that Bezos had plans of supporting the company and promoting its longevity, however that assumption is considered incredibly misguided.

After two years of gutting PlanetAll for its valuable insight and information, Amazon shut down the website. The announcement of the shutdown is summarized by the statement, "We are pleased to announce that we have completed the integration of the key e-commerce related features of PlanetAll.com into our main site at Amazon.com. Although PlanetAll.com will be going away, you'll still be able to enjoy some of the tools that help you keep in touch with like-minded folks".<sup>67</sup> Once Amazon reaped the

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<sup>65</sup>Mergent Inc. (n.d.). *Amazon.com, Inc.: Company History*. Retrieved April 4, 2018, from Mergent Online database.

<sup>66</sup> "Amazon to Buy Two Companies." *CNET*, CNET, 4 Aug. 1998, [www.cnet.com/news/amazon-to-buy-two-companies/](http://www.cnet.com/news/amazon-to-buy-two-companies/).

<sup>67</sup> Buck, Stephanie. "In 1998, Amazon Bought the Website Poised to Become Facebook. Then They Killed It." *Timeline*, Medium, 30 June 2017, [timeline.com/amazon-planetall-facebook-1da7edca7f20](https://medium.com/@stephanie_buck/in-1998-amazon-bought-the-website-poised-to-become-facebook-then-they-killed-it-1da7edca7f20).

benefits of PlanetAll, it had no use for the company any longer. Amazon's "friends" and "favorite" tools still utilize some of PlanetAll features, but the only remaining calendar feature is the date reminder,<sup>68</sup> a grim skeleton of the company that Bezos once celebrated as the most important online application developed.

### **History Continued**

The following years of Amazon's company history demonstrates its rapid expansion that converted the company's title from the biggest book store to the biggest everything store. The company raised \$1.25 billion from a bond offering in 1999, providing the company with the means to explore Amazon's seemingly limitless potential.<sup>69</sup> The company splurged by acquiring several dot-coms with many sold or abandoned to become completely bankrupt. In 1999, Amazon also partnered with Sotheby's, an international art auction house, and constructed distribution facilities in order to expedite shipping and hold inventory. By the end of this year, the company shipped 20 million items to 150 countries around the world and Jeff Bezos was named Time Magazine's Person of the Year.<sup>70</sup> At this point it was safe to say that Bezos' vision came into fruition.

Amazon refocused on its introduction to the toy industry in 2000 with a 10- year partnership with Toys-R-Us. The companies joined forces by signing a deal that made Toys-R-Us the sole vendor of toys on the Amazon website.<sup>71</sup> However, their

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<sup>68</sup> Ibid.

<sup>69</sup> Mergent Inc. (n.d.). *Amazon.com, Inc.: Company History*. Retrieved April 4, 2018, from Mergent Online database.

<sup>70</sup> "Amazon Opens for Business." *History.com*, A&E Television Networks, [www.history.com/this-day-in-history/amazon-opens-for-business](http://www.history.com/this-day-in-history/amazon-opens-for-business).

<sup>71</sup> Pandolph, Stephanie. "Here's How Amazon May Have Led to Toys 'R' Us' Demise." *Business Insider*, Business Insider, 20 Sept. 2017, [www.businessinsider.com/heres-how-amazon-may-have-led-toys-r-us-demise-2017-9](http://www.businessinsider.com/heres-how-amazon-may-have-led-toys-r-us-demise-2017-9).

partnership ended early when Toys-R-Us filed a lawsuit against Amazon for selling toys from other vendors on its website.<sup>72</sup>

### **Additional Commentary**

Toys-R-Us left its agreement with Amazon in 2004 and launched its own e-commerce site in 2006, significantly behind other retailers who were not under the control of another entity. The company struggled to adopt to the changes in consumer habits, unfamiliar with e-commerce and lagging behind retailers who had already experienced the learning curve. In addition, Toys-R-Us took on a deadly amount of debt when three Wall Street firms purchased the company with borrowed money.<sup>73</sup> This transaction shackled Toys-R-Us to \$5 billion dollars in debt plus annual interest payments of \$400 million.<sup>74</sup> Unsurprisingly, this led to the company filing for bankruptcy in September of 2017 and recently liquidating the business as a final result.<sup>75</sup> Critics of Amazon blame the company for the demise of Toys-R-Us, while others argue the company's demise is solely correlated to its debt. A combination of the two factors is most likely the cause, but the influence of Amazon impeding Toy-R-Us' ability to create an e-commerce presence precipitated the company's downfall.

### **History Continued**

In 2001, Amazon reduced its workforce by 15% due to a restructuring plan. The company also constructed a deal with previous rival, Borders, to provide the company

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<sup>72</sup> Ibid.

<sup>73</sup> Pascrell, Bill. "Amazon Didn't Kill Toys R Us, Greedy Wall Street Profiteers Did It." *USA Today*, USA Today, 10 Apr. 2018, [www.usatoday.com/story/opinion/2018/04/08/amazon-didnt-kill-toys-r-us-wall-street-profiteers-did-column/491434002/](http://www.usatoday.com/story/opinion/2018/04/08/amazon-didnt-kill-toys-r-us-wall-street-profiteers-did-column/491434002/).

<sup>74</sup> Ibid.

<sup>75</sup> Coleman-Lochner, Lauren, et al. "Toys 'R' Us Is Prepping to Liquidate Its U.S. Operations." *Bloomberg.com*, Bloomberg, 8 Mar. 2018, [www.bloomberg.com/news/articles/2018-03-08/toys-r-us-said-to-be-prepping-liquidation-of-u-s-operations](http://www.bloomberg.com/news/articles/2018-03-08/toys-r-us-said-to-be-prepping-liquidation-of-u-s-operations).

with services to improve its success. Additionally, the company received a \$100 million investment from AOL. By 2002, Amazon expanded its product line further by offering clothing from top retailers including Nordstrom, The Gap, and Lands End. The company also became ICANN (Internet Corporation for Assigned Names and Numbers) certified that year, designating Amazon as a domain registrar; a privilege only 160 other companies are granted.<sup>76</sup>

Amazon made its most influential impact on retail thus far by introducing Amazon Prime in 2005. For the price of \$79, now \$119, this shipping service guaranteed two-day shipping to consumers from any location. Not only did Prime separate Amazon from other e-commerce retailers who could not afford the delivery expense, but it changed the retail industry forever. The differentiator that allowed brick and mortar retail to prosper over e-commerce was that consumers were able to use their desired item on the same day as purchase. Prime did not grant consumers with same day delivery, but the short wait of two days no longer made brick and mortar shopping as necessary.

In 2006, Amazon executed its first expansion into the food industry. Initially, the company tested online dry groceries and then offered Amazon Fresh delivery service to residents of Seattle, which included perishable food. The company continued to expand its product line in 2007 by producing the Kindle, an Amazon branded electronic and portable book reading device. The launch of this product was so successful that Amazon announced in 2011 that the company was officially selling

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<sup>76</sup> Mergent Inc. (n.d.). *Amazon.com, Inc.: Company History*. Retrieved April 4, 2018, from Mergent Online database.

more electronic books than print.<sup>77</sup> Additionally, in this year, Amazon also launched two other websites, Endless.com which links Amazon users to a portion of their site that sells shoes and accessories and Askville.com which allows Amazon users to seek answers from their pending questions. Amazon acquired the audiobook publisher Brilliance Audio in 2007 as well.

Amazon focused on the entertainment and shopping sectors of its business in 2008. The company released Amazon Video OnDemand, becoming competitive with Netflix's streaming services. The company also acquired The Talk Market, an online shopping startup that helps merchants create video advertisements similar to those on QVC<sup>78</sup> as well as Fabrics.com, allowing Amazon to expand into the hobby sector of clothing too.

In 2009, Amazon acquired one of its competitors, Zappos.com, a major online shoe and apparel e-tailer. Since Amazon's online product distribution capabilities were superior to Zappos prior to the acquisition, the benefits of their agreement were not technologically based. Amazon acquired Zappos in order to capitalize off the company's mastery of customer service and its unique company culture.

### **Additional Commentary**

The longevity of the partnership between Zappos and Amazon is rightfully in question based on the Amazon's tendency to destruct its acquisitions in the past. While Jeff Bezos' praise towards the company leads some individuals to believe that Zappos

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<sup>77</sup> "Amazon Opens for Business." *History.com*, A&E Television Networks, [www.history.com/this-day-in-history/amazon-opens-for-business](http://www.history.com/this-day-in-history/amazon-opens-for-business).

<sup>78</sup> Learmonth, Michael. "Amazon Invests In Video Shopping Startup, Talk Market." *Business Insider*, Business Insider, 9 June 2008, [www.businessinsider.com/2008/6/amazon-invests-in-video-shopping-startup-talk-market](http://www.businessinsider.com/2008/6/amazon-invests-in-video-shopping-startup-talk-market).

may withstand Amazon's gutting nature, evidence from its history supports the belief that this acquisition will follow typical suit. Bezos spoke highly of the company after the acquisition when he said, "Zappos has a customer obsession which is so easy for me to admire. It is the starting point for Zappos. It is the place where Zappos begins and ends. And that is a very key factor for me. I get all weak-kneed when I see a customer-obsessed company, and Zappos certainly is that."<sup>79</sup> This quote may seem like Bezos' support for the company would lead him to maintain the success of the Zappos brand, but this quote truly highlights what Amazon plans to extract from the company.

A Bloomberg article further illuminates the future for Zappos by stating, "With so many priorities competing for Jeff Bezos' attention, such as artificial intelligence and grocery and video, Amazon simply doesn't have time to waste on a business it no longer needs. Reading between the lines of Bezos' annual letter suggests Zappos could be the next shoe to drop".<sup>80</sup> Once Amazon has learned the ins and outs of Zappos' customer centric behavior, it will leave it to dry like its prior acquisitions.

### **History Continued**

Since the acquisition of Zappos, Amazon has continued to acquire companies from a breadth of industries including online book retailers, a voice-to text-startup, an online education marketplace, and a social cataloging company.<sup>81</sup> With these acquisitions, Amazon is able to learn from experts in these fields and adapt its

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<sup>79</sup> Parr, Ben. "Here's Why Amazon Bought Zappos." *Mashable*, Mashable, 22 July 2009, [mashable.com/2009/07/22/amazon-bought-zappos/#oRj7H68ljSql](http://mashable.com/2009/07/22/amazon-bought-zappos/#oRj7H68ljSql).

<sup>80</sup> Banjo, Shelly. "The Next Shoe to Drop at Amazon." *Bloomberg.com*, Bloomberg, 17 Apr. 2017, [www.bloomberg.com/gadfly/articles/2017-04-17/amazon-s-learn-burn-churn-method-puts-zappos-at-risk](http://www.bloomberg.com/gadfly/articles/2017-04-17/amazon-s-learn-burn-churn-method-puts-zappos-at-risk).

<sup>81</sup> Mergent Inc. (n.d.). *Amazon.com, Inc.: Company History*. Retrieved April 4, 2018, from Mergent Online database.

technology and strategies into its own. Its growth is seemingly unlimited with this strategy, continuously improving, expanding, and evolving the company.

The company fully committed to the entertainment industry in 2010 when it created Amazon Studios, which was run by a former executive of Walt Disney.<sup>82</sup> While production companies were confused by the company's introduction to production, Amazon proved the intent behind its strategy with the success of *Manchester by the Sea* in 2017. The company became the first streaming company to receive an academy award nomination and in typical Amazon fashion, the film won Best Original Screenplay and its protagonist, Casey Affleck, went home with Best Actor.<sup>83</sup>

Furthermore, in 2014, Amazon purchased the ".buy" domain for \$4.6 million, distinguishing its territory as the primary destination for online shopping. After the Amazon Fire HD tablet and the Amazon Fire TV's moderate success, the company introduced the Fire Phone in 2014 as well. Against Apple's iPhone and Android phones, the Fire Phone was a total failure, resulting in the company's discard of the product only a year later.<sup>84</sup> This miscalculated blip in the company's success cost \$170 million.<sup>85</sup>

However, this failure was short-lived. Amazon chose to not accept the notion that it could not compete in the technology market with its own products, launching the

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<sup>82</sup> Easter, Makeda, and Paresh Dave. "Remember When Amazon Only Sold Books?" *Los Angeles Times*, Los Angeles Times, 18 June 2017, [www.latimes.com/business/la-fi-amazon-history-20170618-htmlstory.html](http://www.latimes.com/business/la-fi-amazon-history-20170618-htmlstory.html).

<sup>83</sup> "Manchester by the Sea Awards." *IMDb*, IMDb.com, [www.imdb.com/title/tt4034228/awards](http://www.imdb.com/title/tt4034228/awards).

<sup>84</sup> Easter, Makeda, and Paresh Dave. "Remember When Amazon Only Sold Books?" *Los Angeles Times*, Los Angeles Times, 18 June 2017, [www.latimes.com/business/la-fi-amazon-history-20170618-htmlstory.html](http://www.latimes.com/business/la-fi-amazon-history-20170618-htmlstory.html).

<sup>85</sup> *Ibid.*

Amazon Echo in 2015.<sup>86</sup> The product doubles as a speaker and an artificial intelligence assistant coined Alexa. Alexa is able to answer questions, make orders on Amazon.com and play music, integrating further into the daily lives of consumers. Furthermore, at the end of 2015, Amazon became the world's most valuable retailer, surpassing Walmart<sup>87</sup> and by 2016 the company reached \$136 billion in sales.

In 2017, Amazon made a monumental move towards its integration in the food industry by acquiring Whole Foods for \$13.7 billion.<sup>88</sup> This acquisition is a significant investment in brick and mortar retail, highlighting that the company is recognizing the importance of a balance between retail's physical and digital world. Whole Foods also provides Amazon with a plethora of consumer data, providing a comprehensive understanding of the food industry in order to effectively enter the grocery market with the Amazon brand in the future. Additionally in 2017, Amazon exceeded 100 million paid Prime members globally, customers bought tens of millions of Echo devices, Amazon music expanded to 30 more countries, and the company introduced Prime Wardrobe, "a new service that brings the fitting room directly to the homes of Prime members so they can try on the latest styles before they buy".<sup>89</sup>

Today, in the year of 2018, Amazon is a behemoth of success, but some are not a fan of the company's magnitude including the president of the United States, Donald Trump. Trump has recently attacked Amazon for allegedly not paying taxes, using the

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<sup>86</sup> Ibid.

<sup>87</sup> "Amazon Opens for Business." *History.com*, A&E Television Networks, [www.history.com/this-day-in-history/amazon-opens-for-business](http://www.history.com/this-day-in-history/amazon-opens-for-business).

<sup>88</sup> Petro, Greg. "Amazon's Acquisition of Whole Foods Is About Two Things: Data And Product." *Forbes*, Forbes Magazine, 3 Aug. 2017, [www.forbes.com/sites/gregpetro/2017/08/02/amazons-acquisition-of-whole-foods-is-about-two-things-data-and-product/#7b532e42a808](http://www.forbes.com/sites/gregpetro/2017/08/02/amazons-acquisition-of-whole-foods-is-about-two-things-data-and-product/#7b532e42a808).

<sup>89</sup> Bezos, Jeff. "Annual Letter to Shareholder AMZN 2018." Received by Shareholders, 2018.



Washington Post, which Bezos purchased in 2013, as a lead supplier of fake news that supports the company, and single handedly destroying the U.S. Postal service with its discounted shipping rates.<sup>90</sup> Trump's claims are invalid, but the impact of his unsubstantiated banter is not. The company's stock price declined and its market value decreased by \$53 billion after the president went on a tweet rampage. While there are no administrative actions in place against Amazon at this time, it will certainly be interesting to see if Trump has any future plans to influence the company's success.

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<sup>90</sup> Bort, Ryan. "Trump's Feud with Amazon Is Now Costing America Money." *Esquire*, Esquire, 13 Apr. 2018, [www.esquire.com/news-politics/a19766624/trump-amazon-jeff-bezos-post-office-task-force/](http://www.esquire.com/news-politics/a19766624/trump-amazon-jeff-bezos-post-office-task-force/).

## **PESTEL Analysis**

In order to provide a comprehensive analysis of Amazon and its position in the e-commerce industry, a PESTEL analysis was conducted; a marketing framework that evaluates the macro-marketing environmental factors that impact an organization. The result of the analysis is an identification of the threats and weaknesses of a company, in this case Amazon, which are further investigated in a SWOT analysis in the next section.

### **Political:**

Since Amazon is such a large and influential company, it is greatly impacted by governmental regulations across the globe. Amazon has to ensure its following the standards of the host governments it operates in, especially since the attitude towards e-commerce and retail in general varies greatly among different countries. Amazon is also influenced by the political stability of its countries of operation since this coincides with the state of the economy. The president of the United States poses a threat on Amazon as well, with his demand of increased taxation on the company, possibly in the form of an internet tax, and an investigation into the company's "debilitating" effect on the U.S. Postal Service. However, when investigated, Trump's claims against Amazon are unsubstantiated, limiting the impact of his claims to simply bad press at this time.

### **Economical:**

Amazon is greatly impacted by several economical factors including per capita disposable income, taxation and inflation rates, overall and industry-specific economic growth, and changes in currency exchange rates. Consumers are able to spend money on Amazon's products when the economy is stable and Amazon will receive its

expected returns in this case as well. Since Amazon is a global company, it is not only impacted by volatility in the U.S. market, but by fluctuations in the economies around the world. Additionally, since Amazon's product lines are so diverse and substantial in size, the company is impacted by not only changes in the retail industry as a whole, but changes in the individual markets of its product offerings.

**Social:**

Amazon is influenced by the current and ever-changing sociocultural trends of its consumers both in the United States and across the globe. Amazon is threatened by the increasing wealth disparity in many countries. As the gap between the rich and the poor widens, Amazon's customer base diminishes since its success is dependent on consumer's access to disposable income. However, the global increase in consumerism provides expansion opportunities for Amazon. Consumers in developing countries are becoming more comfortable with online technology, increasing their use of e-commerce sites. Also, as consumers experience the instant gratification from shopping on Amazon, they become increasingly invested, engaging in Amazon purchases more and more.

**Technological:**

The consistent changes in technology strongly impact Amazon as an internet company. Amazon must consistently adapt its technology to ensure that its efficient on all software and mobile devices, preventing rapid technological obsolescence.<sup>91</sup> Since 2012, the mobile device industry has surged, increasing at an annualized rate of

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<sup>91</sup> Greenspan, Roberta. "Amazon.com Inc. PESTEL/PESTLE Analysis, Recommendations." *Panmore Institute*, Panmore Institute, 20 Feb. 2017, [panmore.com/amazon-com-inc-pestel-pestle-analysis-recommendations](http://panmore.com/amazon-com-inc-pestel-pestle-analysis-recommendations).

12.3%.<sup>92</sup> This highlights the imperativeness for Amazon to develop native mobile applications and focus on its mobile customer experience. Another technological element of focus for Amazon is electronic payment systems. Consumers demand security and efficiency when transferring funds from their bank to an online retailer, however millions of Americans do not maintain bank accounts or have credit cards, thus Amazon created “Amazon Cash”.<sup>93</sup> This electronic payment systems allows consumers to “hold money online simply by depositing cash to participating brick and mortar locations across the country”.<sup>94</sup> Lastly, a technological factor that influences Amazon is distribution technology. With two day guaranteed delivery, Amazon feels immense pressure to ensure that its ability to manage, sort, package, and deliver sets the standard in the e-commerce industry. As more online retailers improve their distribution technology, Amazon will have to greatly focus on distribution innovation in order to retain its technological gap from its competitors.

**Environmental:**

With the current focus on diminishing the footprint companies leave on the environment, Amazon has a major opportunity to improve its sustainability practices. E-commerce companies have the potential to be detrimental to the environment with their heightened emissions due to delivery services. Also, Amazon’s packaging system produces immense cardboard and plastic waste. Amazon has failed to be transparent about its environmental impact in the past, ignorantly missing the chance to improve its brand image as an organization overall. A focus on a corporate social responsibility

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<sup>92</sup> Hadad, J. (2017, October). *E-commerce and Online Auctions in the US: IBISWorld industry report 45411a*. Retrieved from IBISWorld database.

<sup>93</sup> Ibid.

<sup>94</sup> Ibid.

strategy as well as the implementation of a new and improved sustainability program would not only help the environment, but also the perception of Amazon as a company.

**Legal:**

As a global e-commerce company, Amazon has to follow product regulations as well as import and export regulations. If Amazon monitors these regulations carefully, it can more easily exploit the opportunity to expand into new international markets. The company also has to protect its customers' personal information in order to prevent data and security breaches. Furthermore, Amazon needs to adhere to the guidelines established in its agreements with brands and suppliers to avoid legal implications. Amazon has violated its agreements with companies in the past, harming its relationship with the specific supplier involved and the image of the company overall.

## SWOT Analysis

A SWOT analysis of Amazon is included to further the identification of the company's areas of improvement and concern while highlighting the aspects of the company that Amazon should continue to maintain. The goal of this analysis is to provide an evaluation of what assists Amazons in achieving its accomplishments and what obstacles it must overcome to foster the company's desired continuous and profitable growth.

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"><li>• Largest Online Retailer</li><li>• Amazon products: Kindle &amp; Echo</li><li>• Extensive Product Line</li><li>• Convenience/shipping</li><li>• Strategic Acquisitions &amp; Partnerships</li></ul>	<ul style="list-style-type: none"><li>• Extensive Product Line</li><li>• Sustainability</li><li>• Consumerism</li><li>• Contract Violations</li><li>• Amazon products: Fire Phone</li><li>• Grey Market</li></ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"><li>• Acquisitions</li><li>• International expansion</li><li>• Transparency</li></ul>	<ul style="list-style-type: none"><li>• Competition</li><li>• Devaluing brands</li></ul>

### Strengths:

As the largest online retailer earning revenues of \$177, 866, 000 in 2017, Amazon's size is one of its biggest advantages.<sup>95</sup> With its substantial funding, Amazon is able to acquire its competition and continuously evolve the company to meet new trends and consumer standards. This leads to the perception of Amazon as untouchable

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<sup>95</sup>Mergent Inc. (n.d.). *Amazon.com, Inc.: Company Financials*. Retrieved April 4, 2018, from Mergent Online database.

since its biggest competitors such as e-bay (earning \$9,567,000 in 2017) and Best Buy (earning \$42,151,000 in 2017) are not close to gaining its leverage capabilities.<sup>96</sup>

Amazon's branded products are a strength of the company as well. Since the products are entirely owned by Amazon, it is the sole beneficiary of its success. The Kindle revolutionized the book industry, providing consumers with a hand held device to read novels electronically. In Jeff Bezos' opinion, the explanation for the success of the Kindle is quite simple; Amazon's straightforward approach.<sup>97</sup> When speaking on its success he also adds that the kindle is is "the best purpose-built-e-reader, [has] the best e-book store, and [provides] the best ecosystem so you can read where you want".<sup>98</sup> This may be simple in the eyes of Bezos, but to everyone else the Kindle is a complex achievement. Furthermore, the success of the Amazon Echo is a significant strength of the company. With the expected growth in the voice enabled personal assistant and home device businesses, Amazon is set-up to reap the benefits. Google is developing the Google home and Microsoft is working on the Microsoft Cortana, but Amazon's Echo has already captured between 70-76% of the home device industry, placing it in the top position to capitalize off of the industry's future growth.<sup>99</sup>

In addition, Amazon's extensive product line is a strength of the company. Its diversification ensures that consumers can find the products to satisfy their needs, prevents a depletion in inventory, and prevents the company from becoming obsolete.

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<sup>96</sup>Mergent Inc. (n.d.). *Amazon.com, Inc.: Company Financials*. Retrieved April 4, 2018, from Mergent Online database.

<sup>97</sup> Mitchell, Dan. "Explaining Kindle's Success: It's Very Simple(Minded)." *Fortune*, Fortune, 8 June 2011, fortune.com/2011/06/08/explaining-kindles-success-its-very-simpleminded/.

<sup>98</sup> Ibid.

<sup>99</sup> Griswold, Alison. "Even Amazon Is Surprised by How Much People Love Alexa." *Quartz*, Quartz, 4 Feb. 2018, qz.com/1197615/even-amazon-is-surprised-by-how-much-people-love-alexa/.

Amazon is not constrained to a certain product industry, thus it is less impacted by changing consumer preferences and trends. If a specific product line is not reaching its intended potential, then the company has the power to disregard it and focus on another sector of its business with greater performance potential.

The ability to guarantee two-day shipping to all Prime customers is a strength of Amazon as well. E-commerce is less desirable when a consumer needs a product quickly, but with this shipping capability consumers can use Amazon to satisfy their near immediate needs. This strength leads to another strength of Amazon, its partnerships and acquisitions. Amazon would not be able to provide Prime shipping if it weren't for its partnerships with UPS and the U.S. Postal Service.<sup>100</sup> Amazon's acquisitions are a strength of the company too. Amazon's growth and diverse expertise can be attributed to its strategic acquisitions. Amazon acquires companies that demonstrate a mastery in a certain skill or industry, continuously refining, expanding and improving its business.

**Weaknesses:**

While Amazon's diverse product line is one of its strengths, creating a diversified portfolio and reducing the impact of volatility in the market, it is also a potential weakness of the company. As Amazon drifts further away from the online book industry, it is losing sight of its core competence. The company's strategic acquisitions provide it with the knowledge to succeed in the industries it is less familiar with, but the company is running the risk of spreading itself too thin. As its breadth

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<sup>100</sup> Soper, Spencer. "Amazon Is Testing Its Own Delivery Service to Rival FedEx and UPS." *Bloomberg.com*, Bloomberg, 5 Oct. 2017, [www.bloomberg.com/news/articles/2017-10-05/amazon-is-said-to-test-own-delivery-service-to-rival-fedex-ups](http://www.bloomberg.com/news/articles/2017-10-05/amazon-is-said-to-test-own-delivery-service-to-rival-fedex-ups).



expands, it becomes increasingly difficult to effectively manage each sector of its business, failing to meet its desired performance.

Another weakness of Amazon is its impact on the environment. The company has refused to release data on its carbon emission to the CDP, the Carbon Disclosure Project, which led to the company receiving an “F” rating from the non-profit organization.<sup>101</sup> It is the largest U.S. publically traded company to not participate.<sup>102</sup> Amazon’s rivals have released their information to the CDP, gaining much more positive scores. Google received an “A”, Wal-Mart received a “B”, and Costco received a “C”.<sup>103</sup> The company’s refusal of transparency leads the public to assume that its emission data would be consequential. It is not a surprise that Amazon’s emissions would be high, guaranteeing two-day shipping to all of its Prime customers in 100 countries.<sup>104</sup> Amazon attempts to shield its failure to release emissions information by publicizing its renewable energy efforts such as the promise to reach a 100% renewable energy usage for its global infrastructure footprint.<sup>105</sup> If there was a date attached to this assertion or a plan as to how it will be achieved, Amazon’s lack of transparency could be more easily overlooked, but as is, its sustainable future is perceived as a scam.

In his annual letter to shareholders, Bezos’ commented on the company’s sustainability efforts in 2017 and its sustainable goals for the future, but the memo was

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<sup>101</sup> González, Ángel. “Amazon Gets an 'F' from the Carbon Disclosure Project.” *The Seattle Times*, The Seattle Times Company, 1 Nov. 2016, [www.seattletimes.com/business/amazon/amazon-reluctant-to-share-carbon-emissions-data/](http://www.seattletimes.com/business/amazon/amazon-reluctant-to-share-carbon-emissions-data/).

<sup>102</sup> Ibid.

<sup>103</sup> Ibid.

<sup>104</sup> “International Shopping.” *Amazon*, Amazon, [www.amazon.com/International-Shipping-Direct/b?ie=UTF8&node=230659011](http://www.amazon.com/International-Shipping-Direct/b?ie=UTF8&node=230659011).

<sup>105</sup> “AWS and Sustainability.” *The Amazon Blog-Day One*, Amazon, [www.aboutamazon.com/p/feature/9xtek3a9d9cd3wb](http://www.aboutamazon.com/p/feature/9xtek3a9d9cd3wb).

absent of any detailed plans of how to achieve them. A goal that is not “SMART” (specific, measurable, attainable, reasonable, and timely), is simply not a goal at all. Amazon’s refusal to release information regarding its environmental impact is deceptive and making empty promises on improvements makes matters worse.

While Amazon’s influence on consumerism benefits the company’s sales, it does not benefit their customers, resulting in the classification of this area of impact as a weakness. Amazon provides consumers with an extremely efficient yet impersonal and mindless shopping experience, which intensifies consumerism. The saturation of consumer reviews and product descriptions online allows consumers to no longer have to leave the comfort of their own homes to purchase products, making their most important product decisions with the click of a button. There is also an addictive nature of online shopping, which derives from its ease and instant gratification with companies offering shipping and delivery on the same day as purchase.<sup>106</sup> Engaging in e-commerce has become a routine behavior, diminishing the acknowledgment of participating in a transaction all together. Amazon capitalizes off of this addiction, encouraging consumers to purchase more products via targeting advertisements and purchase suggestions. For such a “customer centric” company, this is a significant imposition of a negative influence on its users.

An additional weakness for Amazon is contract violations and the lawsuits that come to follow. Amazon has a history of breaking contracts such as its agreement with Toys-R-Us. This tendency questions the company’s morality, which reduces the

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<sup>106</sup> Wei, Marlynn. “10 Signs You're Addicted to Online Shopping.” *Psychology Today*, Psychology Today, 4 Nov. 2015.

company's brand equity and stakeholder's confidence. Amazon depends on investments as well as the loyalty of its consumers to survive, so this weakness has the potential to be detrimental to the company's success in the long run.

While some of Amazon's products have seen positive results, the Amazon Fire Phone was not so lucky, presenting another weakness of the company. Amazon lost a substantial amount of money from the launch of the phone with the perception of the phone as a complete flop. The mobile phone industry was unknown to Amazon and the company's lack of understanding resulted in the product's failure. This demonstrates a major weakness for Amazon that could significantly impact its future. If Amazon struggles to produce products in industry's outside of its niche, it will be constrained to specific product lines, substantially limiting the growth potential of the Amazon brand.

A significant weakness in Amazon's business model creates a platform for a "grey" market. Amazon offers a program called "Fulfilled by Amazon" also referred to as FBA, that offers third party merchants a way to sell their products without the fuss. Amazon handles all aspects of the transaction including the sale, warehousing, and shipment once the merchant sends its product to Amazon.<sup>107</sup> Unfortunately for Amazon and its customers, these products are mixed in with all product SKUS, easily mixing authentic products with counterfeit goods. It is often impossible to identify counterfeit goods before the consumer has the fake product in hand because third party merchants conceal their goods with the prime logo. Chris Hoffman, from [howtogeek.com](http://howtogeek.com), comments on this camouflage technique by stating, "Products that are "fulfilled by

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<sup>107</sup> Shepard, Wade. "How to Avoid Dangerous Counterfeits On Amazon This Holiday Season." *Forbes*, Forbes Magazine, 21 Dec. 2017, [www.forbes.com/sites/wadeshepard/2017/12/13/how-to-protect-your-family-from-dangerous-fakes-on-amazon-this-holiday-season/#670e83957cf1](http://www.forbes.com/sites/wadeshepard/2017/12/13/how-to-protect-your-family-from-dangerous-fakes-on-amazon-this-holiday-season/#670e83957cf1).

Amazon” may have the “Prime” logo that makes them look like they’re sold by Amazon—but they aren’t. You’re still buying a product from a third-party seller. The third-party seller ships that product to Amazon’s warehouses and Amazon ships it to you. However, Amazon doesn’t necessarily confirm that the product is legitimate before shipping it to you”.<sup>108</sup> This lack of validity damages Amazon’s brand. Consumers choose to shop on Amazon because they want to purchase their beloved products with ease from the brands they trust, not a random merchant who has found a loophole in Amazon’s business model.

### **Opportunities:**

Amazon has the opportunity to expand into more markets and to refine its approach in its current market sectors by gaining other company’s expertise via strategic acquisitions. The acquisition of a mobile phone company prior to launch of the Amazon Fire phone may have been the key to the phone’s success. Acquisitions also help Amazon lessen the impact of expansion on its performance. With the guidance of experts, the company does not have to spend as much time learning the ins and outs of its diverse markets and monitoring progress, placing its faith in its acquired professionals to help its new market succeed.

Another opportunity for Amazon is an expansion into international markets electronically and with brick & mortars. In 2017, Amazon International was the only sector of the company to operate at a loss. Amazon has the ability to retain its competitive edge against other online retailers if it increases its global online presence.

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<sup>108</sup> Ibid.

The company can compete with its larger competitors like Wal-Mart if it expands on its brick and mortar presence globally as well. It is imperative that the company reaches untapped markets before its competitors, capturing markets without any switching costs or brand loyalty. Specifically, an unsaturated market that Amazon should focus on is India. According to researchers, the Indian e-commerce market is expected to become the second largest in the world after China within the next twenty years.<sup>109</sup> In 2017, Amazon.in was the most visited site on both desktop and mobile devices<sup>110</sup>, so the interest in Amazon is ever presence in the Indian marketplace. With such massive growth potential, Amazon needs to secure its place in the Indian market and do so quickly.

One of the biggest opportunities for Amazon to improve its business is becoming more transparent. The company does not publicize its information regarding its sustainability practices, fails to be forthcoming about its true intentions with its acquisitions, and provides a platform for counterfeit goods to be sold via its FBA program. This lack of accountability dilutes the achievements of the Amazon brand. If consumers and stakeholders do not trust the company, their support will waver, limiting the potential for the company overall.

### **Threats:**

A major threat to Amazon's current success is its vast competition, especially from retail giant Wal-Mart. A major advantage that Wal-Mart holds over Amazon is its

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<sup>109</sup> Trefis Team. "Why India Is Crucial to Amazon's Massive International Expansion Plans." *Forbes*, Forbes Magazine, 28 Nov. 2017, [www.forbes.com/sites/greatspeculations/2017/11/28/why-india-is-crucial-to-amazons-massive-international-expansion-plans/2/#1f3443116748](http://www.forbes.com/sites/greatspeculations/2017/11/28/why-india-is-crucial-to-amazons-massive-international-expansion-plans/2/#1f3443116748).

<sup>110</sup> Bezos, Jeff. "Annual Letter to Shareholder AMZN 2018." Received by Shareholders, 2018.

substantial physical presence along with its consistent online sales growth. Wal-Mart provides its customers with the online platform to browse and purchase products while providing them with a brick & mortar location to ease their return policy. Furthermore, Wal-Mart has invested heavily into increasing the speed of its return transactions currently completing a return in 30 seconds or less.<sup>111</sup> Amazon also experiences a threat of significant competition from smaller online retailers who have more room for flexibility and can act more quickly to changes in the market due to their smaller size. While holding the title as the largest online retailer has its perks, elasticity and agility are not some of them.

Another major threat to Amazon is brand dilution. Amazon's current business model revokes brand control, equalizing brands on its product result pages, forcing consumers to base their product decision off of other customer reviews while providing a platform for third party merchants to sell counterfeit goods. All of these aspects of Amazon's website devalue brands, which creates a major problem for the company. Brands that do not feel supported by Amazon may leave the company and/or the brands that remain will lose their leverage, failing to persuade consumers to make a purchase. Amazon depends on the brands it possesses to bring consumers to their site and follow through with a transaction. Without them, Amazon lacks desirable inventory, resulting in a decrease in customers as well.

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<sup>111</sup> Kolakowski, Mark. "Why Amazon's Biggest Threat May Be Wal-Mart." *Investopedia*, Investopedia, 20 Nov. 2017, [www.investopedia.com/news/why-amazons-biggest-threat-may-be-walmart/](http://www.investopedia.com/news/why-amazons-biggest-threat-may-be-walmart/).

### **Chapter 3: How does Amazon impact brands?**

As highlighted in the previous sections, Amazon has several opportunities for improvement based on the weaknesses of the company and the threats posed against it. However, the threat focused on in this thesis is brand dilution, a result of Amazon's negligence to support the brands the company depends on to appeal to a vast market.

While Amazon is the prominent leader in e-commerce, its business is dependent on the existence of its competitors; the brands it offers consumers on the Amazon website. Amazon's business model capitalizes off of brand recognition. It streamlines the purchasing process by providing consumers with products produced by familiar brands. A customer with a product in mind can search for it via Amazon's search engine, locate their preferred brand of choice, and have the product delivered to their doorstep within two days; a seemingly perfect system that put Amazon on the map. Amazon utilizes brand recognition that companies have worked decades to create in order to bring consumers to its site and lure them into engaging in a purchase. While most retailers offer their customers products from the brands they love and trust, Amazon's methodology of doing so differs to them all, which in turn, creates unique benefits and unfamiliar consequences.

In order for Amazon to provide consumers with the breadth of products and services, CEO, Jeff Bezos, envisioned, the company homogenized the market. Amazon's interface represents brands equally, providing all search results with the same size text box that highlights the specific attributes of each product result. This homogenization seemingly provides the opportunity for all brands to gain traction on Amazon's website. For example, Amazon has a significant impact on consumer-

packaged goods, commonly referred to as CPGs. These goods are inexpensive and require frequent replenishment, resulting in the increased appeal of using Amazon to purchase them.<sup>112</sup> With the combination of digital technology and information about frequently changing consumer behavior, it is integral for CPG brands to incorporate Amazon into their omnichannel distribution.<sup>113</sup> While Amazon provides a seemingly perfect platform for the sale of CPG items, there are consequences to the brands that produce CPG products.

In a brick and mortar retail space, brands have the ability to control the amount of shelf space their CPG products occupy. This helps companies assure that their brand is in the best position to influence a consumer's product decision.<sup>114</sup> However, on the Amazon website, brands are given the same sized product shots, creating an equalizing factor.<sup>115</sup> The brands have no control over the look or size of their promotion and the consumer is only informed about specific product details if the product draws their attention enough to click on it.

Take Coca-Cola for example, one of the highest rated CPGs in the world.<sup>116</sup> When you approach the soda aisle in the grocery store and must pass through an arch way of Coca Cola 12-packs to enter, your eye is immediately drawn to Coca-Cola products.

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<sup>112</sup> "Consumer Packaged Goods - CPG." *Investopedia*, Investopedia, 25 Apr. 2018, [www.investopedia.com/terms/c/cpg.asp](http://www.investopedia.com/terms/c/cpg.asp).

<sup>113</sup> "The Amazon Effect on ECommerce and CPG Brands." *Love of Retail*, 16 Oct. 2017, [loveofretail.com/2017/10/the-amazon-effect-on-ecommerce-and-cpg-brands.html](http://loveofretail.com/2017/10/the-amazon-effect-on-ecommerce-and-cpg-brands.html).

<sup>114</sup> Schelby, Donna. "Impact of the e-Commerce Consumer on Retailers and Brands." *Valassis*, Valassis, 12 Sept. 2016, [www.valassis.com/resources/blog/item/160912/impact-of-the-e-commerce-consumer-on-retailers-and-brands](http://www.valassis.com/resources/blog/item/160912/impact-of-the-e-commerce-consumer-on-retailers-and-brands).

<sup>115</sup> *Ibid.*

<sup>116</sup> O'Reilly, Lara. "The 10 Most Purchased Brands in the World." *Business Insider*, Business Insider, 19 May 2015, [www.businessinsider.com/the-top-10-cpg-brands-according-to-kantar-worldpanel-2015-5#2-colgate--colgate-palmolive-colgate-is-the-only-brand-bought-by-over-half-the-worlds-households-with-its-combination-of-hygiene-and-cosmetic-dental-products-boosting-its-reach-by-3-year-on-year-9](http://www.businessinsider.com/the-top-10-cpg-brands-according-to-kantar-worldpanel-2015-5#2-colgate--colgate-palmolive-colgate-is-the-only-brand-bought-by-over-half-the-worlds-households-with-its-combination-of-hygiene-and-cosmetic-dental-products-boosting-its-reach-by-3-year-on-year-9).



Some consumers may be led to purchase Coke because of this display and others will remain loyal to their beverage of choice, but the point is that Coca-Cola had the opportunity to promote its brand in the manner it intended.

Furthermore, CPG brands are used to compete with familiar brands in mainstream retailers, creating a sense of familiarity that helps the brands to predict their future success. However, Amazon establishes a platform for niche brands that do not have a significant enough market share to stock their products in large retailers, fostering intense competition between much larger and unfamiliar product sets.<sup>117</sup> The format of Amazon's selling platform changes the retail game completely, creating a new set of challenges that both senior and juvenile brands have never experienced before.

In addition, Amazon's layout contrasts to other online shopping formats with its dependency on customer reviews to guide consumers towards their purchase decisions. Most online retailers provide prospective buyers with customer reviews, but they are promoting their products on their own branded e-commerce site. Amazon's customer evaluation system allows for prospective buyers to discover the pros and cons to their products of interest in a less formal and structured manner. The company's review system is regarded as less biased than the reviews posted on a brand's own e-commerce website because Amazon is perceived as not having much "skin in the game", lacking the incentive for reviews to be swayed positively to ensure product purchases of a certain brand. Additionally, sales associates are often told to promote certain products based on brand agreements and also tend to push customers to purchase products in

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<sup>117</sup>Schelby, Donna. "Impact of the e-Commerce Consumer on Retailers and Brands." *Valassis*, Valassis, 12 Sept. 2016, [www.valassis.com/resources/blog/item/160912/impact-of-the-e-commerce-consumer-on-retailers-and-brands](http://www.valassis.com/resources/blog/item/160912/impact-of-the-e-commerce-consumer-on-retailers-and-brands).

general with the pressure to meet sales records and gain commission. These influences may unfairly lead consumers towards a certain product choice.

It is important to note that customer reviews have the ability to greatly influence a consumer's product decision. It is imperative for brands to have overall positive ratings on Amazon with the format of the website clearly highlighting the individual customer ratings and reviews on each product. The article, "The Effect of Online Consumer Reviews on New Product Sales", highlights the influence of consumer reviews on purchase decisions. According to the article, electronic word of mouth (eWOM) is an imperative communication for consumers to partake in a product purchase decision.<sup>118</sup> Consumers are significantly swayed by the positive or negative evaluations of products, despite the impersonal and non-expert nature of the review.<sup>119</sup> The impact of online reviews on product sales places increases pressure on marketers to positively influence product and brand perceptions early on in order to shape consumer assessments. This demonstrates the impact of Amazon's platform, encouraging consumers to influence each other towards future purchases instead of representatives of individual companies informing consumers about their products directly.

Amazon's online shopping platform made it successful, granting consumers with all of the possible product choices to meet their needs while providing consumers with a voice they haven't had in the past. However, this business model has a disguised parasitic nature that has the potential to be detrimental to Amazon's future. The breadth

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<sup>118</sup> Cui, Geng, et al. "The Effect of Online Consumer Reviews on New Product Sales." *International Journal of Electronic Commerce*, vol. 17, no. 1, 2012, pp. 39-58. EBSCOHost.

<sup>119</sup> Ibid, 41.

of Amazon provides brands with several benefits, but also devalues the brands that the company depends upon.

The term developed to encompass Amazon's two sided impact on brands is the "Collective Intent". Amazon wants brands to perceive its homogenization of the market and its willingness to take control of the complete purchase transaction as the establishment of an equal playing field; a seemingly positive step towards a fair and competitive marketplace. The company also markets its "Collective Intent" as a sign of its focus on customer value, offering customers with the lowest price in the market and a seemingly endless assortment, whether Amazon personally stocks the products or not. However, there is a dark side to the "Collective Intent" that specifically harms brands, the very thing that Amazon depends upon to capture those most valued customers it always gloat about. There are specific examples below that exemplify the impact of Amazon's "Collective Intent", bringing attention to the losing side of such an expansive and equitable marketplace; the future of brands.

### **Fulfilled by Amazon Program**

The Fulfillment by Amazon Program provides a platform for third party sellers to sell their products on Amazon's website. The program works by having a third party seller send its merchandise to an Amazon distribution center where the third party can monitor the inventory via Amazon's tracking system. Once a customer orders the third party's item on Amazon or another e-commerce site, Amazon selects the item for packaging and ships the product directly to the customer. Lastly, Amazon provides the customer with the customer service and return services that it would offer any supplier

on its website.<sup>120</sup> In Jeff Bezos' 2017 letter to shareholders, the CEO highlighted the company's milestones, which included the success of the Fulfilled by Amazon program. Bezos' exemplified the program's growth by stating,

“In 2017, for the first time in our history, more than half of the units sold on Amazon worldwide were from our third-party sellers, including small and medium-sized businesses (SMBs). Over 300,000 U.S.-based SMBs started selling on Amazon in 2017, and Fulfillment by Amazon shipped billions of items for SMBs worldwide. Customers ordered more than 40 million items from SMBs worldwide during Prime Day 2017, growing their sales by more than 60 percent over Prime Day 2016. Our Global Selling program (enabling SMBs to sell products across national borders) grew by over 50% in 2017 and cross-border ecommerce by SMBs now represents more than 25% of total third-party sales”.<sup>121</sup>

Bezos' evaluation of Amazon's third party selling capabilities demonstrates the impact of the FBA program. The growth of the program in 2017 alone exemplifies how major this program is in shaping Amazon's business model. While there are many benefits to the FBA program such as discounted shipping rates, exposure to more customers, and the ability to pass on the hassle of customer service and returns that Amazon has mastered, there are some significant drawbacks to the FBA program that

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<sup>120</sup> Hufford, Jillian. “Are Fulfillment by Amazon's (FBA) Fees Worth the Cost?” *NChannel*, NChannel, 15 Jan. 2018, [www.nchannel.com/blog/is-fulfillment-by-amazon-fba-worth-the-cost/](http://www.nchannel.com/blog/is-fulfillment-by-amazon-fba-worth-the-cost/).

<sup>121</sup> Bezos, Jeff. “Annual Letter to Shareholder AMZN 2018.” Received by Shareholders, 2018.

negatively impact brands.

The FBA program commingles merchandise, allowing Amazon to ship products from whichever distribution center can deliver a customer their desired product the fastest. In order to mix merchandise, Amazon gives each product a barcode that pools products together based on their specific product IDs. This allows the company to store and ship products with the same product ID by the location that will ensure the fastest delivery to each customer.<sup>122</sup> “For example, a buyer in Ohio selects a product from a seller in Colorado. If Amazon’s system finds an identical product offered by a seller in Indiana, whose product is in a closer fulfillment center, they’ll ship the Indiana seller’s item to the buyer. The Colorado seller still gets the sale of course”.<sup>123</sup> At first glance, this doesn’t seem to be problematic because the Colorado seller is receiving the sale, but the commingling mentioned before introduces a problem of quality control. It is impossible for Amazon to guarantee that the product the buyer is receiving is the product they intended to purchase. The consequences of this potential for counterfeit goods is vast including negative reviews, the loss of Amazon customers, and legal actions. However, the most critical consequence is brand dilution.

The brand name of the product is automatically devalued in the eyes of the consumer when they receive a counterfeit good. The customer can easily return the good and has the option to go back to the Amazon website to purchase the product from a manufacturer the second time around, but the inconvenience of this process and the

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<sup>122</sup> Hufford, Jillian. “Are Fulfillment by Amazon’s (FBA) Fees Worth the Cost?” *NChannel*, NChannel, 15 Jan. 2018, [www.nchannel.com/blog/is-fulfillment-by-amazon-fba-worth-the-cost/](http://www.nchannel.com/blog/is-fulfillment-by-amazon-fba-worth-the-cost/).

<sup>123</sup> Hufford, Jillian. “Are Fulfillment by Amazon’s (FBA) Fees Worth the Cost?” *NChannel*, NChannel, 15 Jan. 2018, [www.nchannel.com/blog/is-fulfillment-by-amazon-fba-worth-the-cost/](http://www.nchannel.com/blog/is-fulfillment-by-amazon-fba-worth-the-cost/).

negative connotation of fraud are attached to the brand regardless. This demonstrates the imperativeness for brands to gain awareness of the impact of third party selling on their individual success. The growth of the program in 2017 alone exemplifies that this influence on brands is drastic and not going away any time soon. Brands need to safeguard themselves against this “grey market” in order to protect the value of their brand that they have worked so hard to establish.

### **The Collective Intent-FBA Program**

Amazon’s “Collective Intent” is present in its Fulfillment by Amazon Program. The FBA program grants third party merchants, who would otherwise be unable to reach Amazon’s customers, the ability to sell on the Amazon website. This creates a larger “collective” of suppliers, creating a freer and more open marketplace. This also provides consumers with a seemingly endless amount of product offerings and helps ensure that their desired product choice is in stock, generating a “collective” customer experience. However, as stated above, the collective intent is a two sided concept, thus there are negative effects of this equal and expansive market formed by the FBA program. Unethical sellers are able to capitalize off of the collective intent by finding a loophole in the FBA program. These sellers use the freedom and equalizing nature of the program to operate within the “grey market”, taking advantage of customers and ethical third party merchants while damaging the legitimacy of the brands they are pretending to distribute.

### **Discount Provided by Amazon Program**

Amazon has recently implemented a program called “Discount Provided by Amazon”, which ensures that products sold on Amazon are sold at the lowest

competitive price possible. Since Amazon is loathed to give up a sale to, well anyone, the company is now reducing prices of seller's products and absorbing the difference between the seller's listed price and the newly discounted price.<sup>124</sup> This price reduction system prevents the seller from experiencing an immediate financial hit, but that does not mean that there are not costs to be incurred.

Amazon launched the Discount Provided Program without notifying sellers. While sellers can opt out of the program, they have to first be aware that they are participating in it and then initiate their removal. This lack of transparency can result in brands finding themselves in violation of MAP (Minimum Authorized Price) policies they have already agreed to adhere to, causing stress to the relationship between the brand and the seller. The brand is going to be reluctant to continue its partnership with the seller since they violated their agreement, however the seller had no knowledge of the price reductions; accountable but not responsible.

Another cost of the Discounted by Amazon program is the reduction in brand equity. Brand equity is defined as "a value premium that a company generates from a product with a recognizable name, when compared to a generic equivalent"<sup>125</sup>. When a brand's selling price is below its perceived market value, the perception of the brand is depreciated, diminishing its brand equity. If a core consumer perceives the brand's cache to be less desirable than before, they are less likely to purchase it. This highlights that

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<sup>124</sup> Shaheen, Jennifer. "New Discount Provided By Amazon Program - Who Really Pays?" *Technology Therapy Group*, 18 Nov. 2017, [technologytherapy.com/discount-provided-by-amazon/](http://technologytherapy.com/discount-provided-by-amazon/).

<sup>125</sup> "Brand Equity." *Investopedia*, Investopedia, 23 Apr. 2018, [www.investopedia.com/terms/b/brandequity.asp](http://www.investopedia.com/terms/b/brandequity.asp).

the implementation of this program induces brand dilution with a direct result of a decrease in sales.

### **Interview with a Brand Executive in the Retail Industry**

A conversation with a brand executive in the retail industry (identity concealed for their protection) provides evidence for the brand dilution caused by Amazon's discount program. The interviewee works for a company that sells products on Amazon's website directly and allows third party merchants to sell their products on the site as well. When asked about the impact of the program on their company's brand, the brand executive provided instances of Amazon's price matching consistently disrupting the entire marketplace. For example, there was a third party seller offering the brand's product at a price well below market value or even a positive margin in order to "win the buy box". Since Amazon promotes the lowest price, Amazon matched this retailer's price, disrupting the brand's pricing strategy, the profitability of other ethical third party merchants and diminishing the value of the brand overall. After numerous conversations with this retailer and getting nowhere, the brand took all of their inventory back, cancelled all futures and generated a cease and desist.

The brand executive continued to emphasize the impact of Amazon on brands, referring to doing business with company as "pay to play". As brands establish business on Amazon, their growth is in keeping with Amazon's, getting big fast while becoming a larger percent of the total. As Amazon recognizes this, the company is asking for more concessions, including larger discounts, marketing support, and the carrying of inventory for Amazon itself. This satisfies Amazon's inventory needs, while placing all of the risk on the brand. If Amazon doesn't sell it, the brand has to hold it.



Overall, this conversation exemplifies that Amazon's Discount program not only dilutes brand value, but also hurts the parties involved.

### **The Collective Intent- Discount Provided by Amazon Program**

The collective intent of Amazon is present in the implementation of its Discount Provided by Amazon program. The program contributes to the "collective" by minimizing the differences between brands through the unionization of their prices. This is positive for customers who pay the lowest prices for their favorite brands, but destructive to the brands themselves. This collective intent devalues the brands, converting their perception as premier to extremely accessible and generic. In the end this also hurts consumers. Although they might have more money in their pockets, they are not going to want to spend it on their most desired items because they simply will not be desired any longer.

### **Illegitimacy of Consumer Reviews-Echo Chambers**

While customer reviews may seem favorable to commissioned sales associates, they have significant shortcomings that impact brands directly, refuting this assumption. Online consumer reviews can limit the breadth of products that consumers view before purchasing and the information they discover regarding their possible product choices. The study, "Echo Chambers on Facebook", explains the phenomenon of echo chambers as an individually filtered information channel developed by the formation of polarizing groups which were initially discovered on social media.<sup>126</sup> This "echo chamber" limits opposing views, creating one-sided opinions and arguments. The article emphasizes the funneling effect of echo chambers by stating, "Users show a tendency to seek out and

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<sup>126</sup> Quattrociocchi, Walter, et al. "Echo Chambers on Facebook." *SSRN*, 13 June 2016.

receive information that strengthens their preferred narrative and reject information that undermines it”.<sup>127</sup> Individuals are able to control the information they receive, creating a false sense of expertise and comprehensive knowledge.

The concept of the echo chamber correlates to the formation of brand loyalty. Consumers are drawn to certain brands and feel a sense of belonging due to social proof, a key marketing principle of persuasion. Consumers want to support brands that represent them as well as brands that relatable individuals endorse. This formation of brand loyalty influences the manner in which consumers make product decisions on e-commerce sites like Amazon. Consumers are in control of the information they share about products as well as the information they choose to accept while they engage in online retail. Consumers may wrongfully select a product to meet their needs due to an unacknowledged bias supported by likeminded consumers. The online shopping platform does not challenge consumer’s preferences towards certain brands, limiting their awareness of new product offerings or options that might better suit their needs. The communication between consumers via e-commerce may lead consumers to make ill informed product decisions, limiting their satisfaction overall.<sup>128</sup>

### **Collective Intent-Echo Chambers**

Amazon’s dependency on customer reviews to guide prospective buyers supports its collective intent. Amazon wants its consumers to interact with one another, creating a collaborative platform for them to do so. The company also wants consumers

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<sup>127</sup> Ibid.

<sup>128</sup> Hiebert, Paul. “Consumer Reports in the Age of the Amazon Review.” *The Atlantic*, Atlantic Media Company, 13 Apr. 2016, [www.theatlantic.com/business/archive/2016/04/consumer-reports-in-the-age-of-the-amazon-review/477108/](http://www.theatlantic.com/business/archive/2016/04/consumer-reports-in-the-age-of-the-amazon-review/477108/).

to perceive the consumer reviews as another aspect of the company that “evens the playing field”, giving consumers a voice instead of well-established brands dominating the marketplace due to its excessive promotional budgets. However, without surprise, there is a consequence to the establishment of the “collective” as well. Since consumers inherently gravitate towards the reviews that match their preconceived ideals, finding their segment within the “collective”, they often purchase products that do not meet their specific requirements. This results in dissatisfaction towards the brand of choice even though the brand was errorless; a significant repercussion that the brand cannot control.

### **Illegitimacy of Consumer Reviews-Brushing**

Not only can consumer reviews be misleading due to misinformation, but also come from individuals who are not customers at all, creating falsified information all together. Individuals who desire positive reviews for their own benefit, such as employees and stakeholders, have the ability to create alias profiles to disguise themselves as consumers. These incognito reviewers post favorable reviews about their products in order to increase their overall rating, swaying consumers to purchase their products.

The concept of an online seller disguising their identity under a fake profile or through the use of another paid individual is referred to as “brushing”.<sup>129</sup> In some cases, an online seller pays a brusher the cost of their product plus an additional fee to incentivize them to take part in the scheme. Then the brusher purchases the seller’s

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<sup>129</sup> “They Call It 'Brushing': The Dark Art of Alibaba Sales Fakery.” *The Wall Street Journal*, The Wall Street Journal, 3 Mar. 2015, [blogs.wsj.com/chinarealtime/2015/03/03/they-call-it-brushing-the-dark-art-of-alibaba-sales-fakery/](https://blogs.wsj.com/chinarealtime/2015/03/03/they-call-it-brushing-the-dark-art-of-alibaba-sales-fakery/).

product with the money they received and the seller sends the brusher an empty package or some junk. Once the brusher receives the package, the brusher writes a glowing review about the product, placing the seller's product in a more favorable SEO (search engine optimization) position, thus increasing its visibility.

Another form of brushing is when the online seller themselves purchases their own products through a fake account. The account is attached to a traceable address, which prevents the fraudulent "customers" from being caught.<sup>130</sup> The recipients of these packages have no idea where they come from, but because there is no return address or order number, it is impossible to track the package back to the purchaser.<sup>131</sup> CBS reported on a couple in Massachusetts who received several mysterious products from Amazon at their door step that they did not order from the site.<sup>132</sup> Amazon made a statement regarding the breach in security stating, "They investigate every report of customers receiving unsolicited packages and will ban all vendors and reviewers who abuse the reviews system".<sup>133</sup> While this may be true, the company still needs to figure out how to prevent fake profiles all together, not just deleting accounts and punishing perpetrators after the breach of security has occurred.

### **Collective Intent-Brushing**

The existence of brushers is directly correlated to Amazon's collective intent. Amazon gave consumers the freedom to express themselves without validation because it wanted all consumers to feel a part of the collective. Thus, this accessibility is not

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<sup>130</sup> "Couple Swamped by Amazon Deliveries That They Didn't Order." *CBS News*, 9 Feb. 2018, [www.cbsnews.com/news/amazon-brushing-scam-couple-receives-packages-they-didnt-order/](http://www.cbsnews.com/news/amazon-brushing-scam-couple-receives-packages-they-didnt-order/).

<sup>131</sup> *Ibid.*

<sup>132</sup> *Ibid.*

<sup>133</sup> *Ibid.*

limited to ethical consumers, providing a window for the publishing of illegitimate reviews to boost consumer perception. The inclusion of customer reviews was meant to eliminate bias, yet the system is infested with direct bias from the “sellers” themselves, which in turn erodes brand value.

### **The Threat of Alexa**

Voice assistants have control over the products they suggest to consumers, recommending certain products over other staple brands that carry the same products. Currently, this biased product suggestion system is not a major threat to brands due to the limited utilization of voice assistants for product searches.<sup>134</sup> However, Amazon’s Alexa could have detrimental effects on brands in the future as voice technology gains momentum. According to Sebastien Szczepaniak, a former Amazon executive who currently leads the e-commerce department of Nestlé, in the next five years, half of all searches conducted on the web will be executed through voice technology.<sup>135</sup> In addition, the consulting firm, Capgemini, proposes that in the next three years, voice assistant users are expected to spend 18% of their total expenses via voice assistants.<sup>136</sup> This evidence demonstrates the future impact of voice assistants on consumer product decisions, creating a heightened concern for the brands that do not have their own proprietary voice assistant technology.

Unlike shopping in a store or conducting a google search for a product, voice assistants provide consumers with a single product option without considering input

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<sup>134</sup> Chaudhuri, Saabira, and Sharon Terlep. “The Next Big Threat to Consumer Brands (Yes, Amazon’s Behind It).” *The Wall Street Journal*, The Wall Street Journal, 27 Feb. 2018, [www.wsj.com/articles/big-consumer-brands-dont-have-an-answer-for-alexa-1519727401](http://www.wsj.com/articles/big-consumer-brands-dont-have-an-answer-for-alexa-1519727401).

<sup>135</sup> Ibid.

<sup>136</sup> Ibid.

from the sellers.<sup>137</sup> With voice assistants, brands do not have control over marketing and advertising, ensuring that their intended brand image and message is conveyed to consumers. They are not able to pay for strategic placement on a webpage or display their packaging. Through the use of voice assistants, brands are forced to relinquish control, simply hoping that the algorithm in use suggests their product over the plethora of other possible options.

Amazon's Alexa creates an entirely different threat to brands that other voice assistants do not pose. This threat should be highly noted by brands with Amazon in charge of the voice assistant market, holding a 70% dominance with Alexa. Amazon's desire to encourage customers to buy its products through the Amazon website and to buy Amazon branded products whenever possible, greatly influences a brand's likelihood of being selected as the top choice for a product search. The Wall Street Journal reports that in a test conducted by Bain&Co, over half the time, first time customers made an unspecified brand product request, Alexa's first suggestion was an Amazon product. The product is suggested through the "Amazon's Choice" algorithm, which provides a product that is rated highly, priced fairly, and is available for Prime delivery.<sup>138</sup> Furthermore, the study found that Alexa offered an Amazon branded product 17% of the time even though the Amazon private label brand only makes up 2% of volume sold.<sup>139</sup> This information is imperative for brands, emphasizing the importance of their presence on Amazon and the pervasiveness of Amazon overall. However, their presence on Amazon's website is not enough to ensure that their product

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<sup>137</sup> Ibid.

<sup>138</sup> Ibid.

<sup>139</sup> Ibid.

will be provided as the best selection for a consumer's desired purchase. If Amazon produces the product a consumer desires, it is going to capture that consumer by providing its private label product to satisfy their needs time and time again.

### **Collective Intent-Alexa**

The development of Alexa coincides directly to Amazon's collective intent. Alexa removes the little effort that was required to make a purchase on the Amazon website, allowing a customer to not only make a purchase from the comfort of their own home, but now from their bed. This additional ease, efficiency, and accessibility of Amazon increases the breadth of consumers and transactions, growing Amazon's collective. Nonetheless, this widening of Amazon's scope has adverse effects to brands, other than Amazon's private label brand of course. While Alexa heightens Amazon's integration into consumer's daily lives, giving the brands on its site the opportunity to reach more consumers, this is not Amazon's goal. The company wants to sell its own products, suggesting its private label brand when at all possible in order to satisfy a user's needs. This monopolization of its search engine inhibits other brands from receiving a sale, decreasing their exposure, resulting in brand dilution over time.

## Chapter 4: Why does this matter?

It is clear that Amazon's business model is consequential to the brands it carries, but the real question is, does it really matter? The Harvard Business Review published an article, "Why Strong Customer Relationships Trump Powerful Brands", which provides empirical evidence supporting the claim that a business' success is no longer dependent on their branding strategy creating value, but their customer relationships increasing the value of the entity. This switch in focus is not surprising due to e-commerce reshaping the retail industry.

E-commerce provides consumers with considerable brand knowledge at their fingertips, no longer requiring firms to invest extensively in the creation of a brand image through marketing and advertising to encourage consumer support. While the e-commerce platform decreases the need for brand building via marketing, it allows companies to build their brands by forming meaningful customer relationships in ways that were not feasible before. This information leads to the assumption that Amazon's impact on brands can be ignored as long as both Amazon and the brands it carries focus on valuing their consumer relationships. However, this assumption is not vetted.

It may be true that senior brands with superior brand awareness and brand loyalty are able to switch their focus to building customer relationships to retain their customer base, but less established brands do not have this luxury. A lesser known brand could have the best customer service available, but unless consumers know about the product and have a reason to desire it, their offering of support is irrelevant. Furthermore, this empirical evidence does not absolve Amazon from facing consequences from its collective intent diluting brands. The perception of Amazon as a



service company, a distributor of consumers beloved products, not a wholesale retailer selling its own private label products, illuminates its dependence on brands. Consumers utilize Amazon to purchase the products they know, not to purchase replacement products engraved with a golden smile. Amazon's brand identity is strong, valued, and expansive, but the title of the everything store does not parlay to the title of the everything producer. Without a focus on illustrating brands' value and their product's capabilities, consumers will lose their brand loyalty, threatening the existence of the brands themselves. If Amazon does not have the strength of the brands to draw consumers to its website, the company will be left to reinvent the incentive to shop at Amazon.com.

Amazon's future without the leverage of the brands on its site looks drastically different than its current interface. A solution to this problem is the production of Amazon branded products, but this is an endeavor of titanic proportions. While Amazon has established themselves as the producer of certain products, selling more than 70 of its own private label brands<sup>140</sup>, this does not approach the magnitude of products it would have to offer in order to retain its breadth. Even if Amazon was successful in creating Amazon branded products across its immense product lines, the lack of cache attached to its brand would prevent long term prosperity.

As stated before, Amazon is not viewed as the producer of all products, but the distributor of them. The company has been successful in producing products in which it

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<sup>140</sup> Rey, Jason Del. "Surprise! Amazon Now Sells More than 70 of Its Own Private-Label Brands." *Recode*, Recode, 7 Apr. 2018, [www.recode.net/2018/4/7/17208804/amazon-private-label-brands-list](http://www.recode.net/2018/4/7/17208804/amazon-private-label-brands-list).

possesses expertise and producing products that are entirely new such as the Amazon Kindle and Amazon Echo, but were devastatingly unsuccessful when the company attempted to enter markets where it lacked proficiency and market share like the Amazon Fire phone. Amazon may produce the best “widget” available, but the hurdle it must overcome is convincing the consumer that that’s true. This challenge is daunting considering Amazon’s lack of brand identity in each of its specific product categories, but also because of the result of diminished competition through brand dilution.

A consumer makes a judgment about a product by comparing it to the others available, which fosters satisfaction in knowing that they are receiving the best value for their dollar. In a shrinking marketplace, there is room for a lot less of this satisfaction. Amazon will not have the leverage to prove its worth in a less vibrant market. The company’s products may be chosen because of limited options, but that does not contribute to the enhancement of the Amazon brand. Overall, the brand dilution that results from Amazon’s platform creates a market where its branded products become less compelling, demonstrating that the solution of producing its own products is not commensurate with its leadership as the most innovative and consumer centric everything store.

An article published in the New York Times highlights the consequence of Amazon’s focus on “bigness”, promoting the lowest prices and highest efficiency while disregarding the value of the brands it offers, by examining the impact of Amazon on Barnes and Noble. The author, David Leonhardt, notes that this theory that Amazon holds has two large flaws. He states, “One, prices are not a broad enough measure of well-being. Wages, innovation and political power matter as well. If prices stay low but

wages don't grow — which is, roughly, what's happened in recent decades — consumers aren't better off. Two, regulators have focused on short-term prices, sometimes ignoring what can happen after a company drives out its rivals”.<sup>141</sup> A look into the book industry exemplifies these issues, highlighting the detrimental effects of Amazon on the branded products it carries as well as its negative impact on its future. The artificially low prices of the books on Amazon's website have made books less commercially viable.<sup>142</sup> Due to Amazon's drastic price cuts, publishers are shifting their focus to big name authors and the overall number of professional authors has declined.<sup>143</sup> The authors and publishers who have attempted to combat Amazon, speaking out about the company's detrimental impact on their industry, have experienced punishment via Amazon disrupting sales.<sup>144</sup> The article encompasses Amazon's predatory nature by stating, “Internally, Amazon executives have described small publishers as a “gazelle” — and itself as a cheetah”.<sup>145</sup> While Amazon has moved away from the book industry in recent years, lessening the impact of the dilution of books on the company's overall success, this article provides insight into the consequences of Amazon's business model on other branded products as well as the company's future.

Amazon's short term focus is creating long term repercussions. The company's current business model is successful because it has brands to offer as well as

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<sup>141</sup> Leonhardt, David. “Save Barnes & Noble!” *The New York Times*, The New York Times, 6 May 2018, [www.nytimes.com/2018/05/06/opinion/save-barnes-noble.html](http://www.nytimes.com/2018/05/06/opinion/save-barnes-noble.html).

<sup>142</sup> Ibid.

<sup>143</sup> Ibid.

<sup>144</sup> Ibid.

<sup>145</sup> Ibid.

competitors in the market. Without brands, Amazon is void of a compelling inventory. Without rivalry, Amazon does not have a benchmark to promote its offerings. These two factors combined results in an entirely new arena for Amazon, extracting the fundamental qualities of the company that makes Amazon, Amazon.

Even if Amazon was successful in overcoming the brand dilution resulted from the collective intent, somehow expanding its brand across its scope, acquiring the needed expertise and overcoming the resulting lack of competition in the market, the company would essentially be cannibalizing itself, losing sight of its mission and altering its DNA. Once again, Amazon is the “everything store”, not the producer of everything. Furthermore, as exemplified above, the company would not be able to achieve this transformation while managing to secure the innovative and trend setting perception it desires. Amazon acquired Whole Foods instead of Kroger and produced *Manchester by the Sea*, an Academy Award winning movie, not a romantic comedy, because it has a prestige it desires to retain. The plaque in Amazon’s headquarters, that greets all employees and guests, confirms the company’s yearning for esteem. The plaque states,

“There is so much stuff that has yet to be invented.

There is so much new that’s going to happen.

People don’t have any idea yet how impactful the internet is going to be and that it is still Day 1 in such a big way”

Jeff Bezos<sup>146</sup>

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<sup>146</sup> Stone, Brad. *The Everything Store: Jeff Bezos and the Age of Amazon*. Corgi Books, 2014., 9.

Another significant implication of Amazon's growth of its branded products to combat the erosion of the brands it currently offers, is the disassociation between this strategy and consumers' desires. As Amazon continuously homogenizes the market while simultaneously diluting the brands on its site, consumers will embark on a search for personal identity. Consumers purchase products in order to feel a sense of belonging to their social group, not every consumer in the nation.<sup>147</sup> They want to differentiate themselves from the collective, creating an opposition between their desires and Amazon's intention. This search for identity may result in the rise of the boutique, either in e-commerce and/or brick and mortar. A boutique retailer provides consumers with an intimate experience, offering a limited amount of unique products. If this is the next spin in retail's evolving cycle, Amazon will face serious implications. The company does not have much to offer consumers when it comes to products that promote personal identification. Amazon may view a future full of products stamped with its signature smile, but that future does not align with the innate desires of the consumers it depends on for success. While the retail industry is constantly evolving, transforming what was once the most innovative and impactful retail platforms into obsolescence, Amazon's collective intent has the potential to generate demise faster than the cycle inherently intends.

Amazon wants to be on the cutting edge of innovation and customer service, holding its leadership position in the e-commerce industry. Bezos' speaks of Amazon's differentiating factors when he says, "We are genuinely customer centric, we are

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<sup>147</sup> Champniss, Guy, et al. "Why Your Customers' Social Identities Matter." *Harvard Business Review*, Harvard Business Review, 11 Oct. 2015, [hbr.org/2015/01/why-your-customers-social-identities-matter](http://hbr.org/2015/01/why-your-customers-social-identities-matter).

genuinely long-term oriented, and we genuinely like to invent...Very few companies have those three elements".<sup>148</sup> In order for Amazon to protect its ideals and differentiating factors, the company needs to protect the brands that made it successful, simultaneously satisfying consumers desires. The future of Amazon is grim without them; producing products that have been seen before and doing so without the expertise and competition that drives brand value. While Amazon recognized the value of Montgomery Ward's catalog, capitalizing off of its business model on the internet,<sup>149</sup> the company must recognize that its future may not only reflect Montgomery Ward's rise, but also its fall. Amazon desires longevity, innovation, and elevated customer value, three qualities that are dependent on providing a compelling offering. If Amazon wants to survive the ever changing retail landscape, it must evolve by protecting the brands it is currently diluting. To Amazon, brands are as much of a customer as a true consumer.

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<sup>148</sup> Ibid, 12.

<sup>149</sup> Ibid, 25.

## Chapter 5: The Brand Matrix

In order for Amazon to appropriately support brands, it is necessary for the company to be transparent about the implications of its business model on a brands' individual success. Every brand that sells its products through Amazon is affected by their partnership; some positively, some negatively, and others in between. Thus, these brands have the right to be able to anticipate the influence of Amazon from the start. Preliminary information regarding Amazon's impact on brands provides each specific brand with the opportunity to make informed decisions regarding its determination to sell on Amazon as well as ongoing calculated strategic decisions that will help foster long term success on Amazon's site.

Initially, acts towards the direct implementation of transparency are quite tempting such as requesting the removal of Amazon's FBA program or its Discounted by Amazon Program. However, these mentioned pleas will not materialize because they strip Amazon of the fundamental characteristics that define the company. Amazon is Amazon because of its breadth, low prices, and accessibility. These defining features are the core of Amazon's title as the largest e-commerce business in the world<sup>150</sup> and contributed to Jeff Bezos' recent milestone of becoming the richest man in the world with an estimated net worth of \$112 billion dollars.<sup>151</sup> Amazon is going to be hard-pressed to change its ways because they have been successful. For that reason, instead

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<sup>150</sup> Chepkemai, Joyce. "The 25 Largest Internet Companies In The World." *WorldAtlas*, WorldAtlas, 13 Feb. 2017, [www.worldatlas.com/articles/the-25-largest-internet-companies-in-the-world.html](http://www.worldatlas.com/articles/the-25-largest-internet-companies-in-the-world.html).

<sup>151</sup> Calfas, Jennifer. "Richest People in the World." *Money*, Time, 25 May 2017, [time.com/money/4746795/richest-people-in-the-world/](http://time.com/money/4746795/richest-people-in-the-world/).

of requesting Amazon to transform its current business model, the addition of an informative business tool is indicated.

Through reverse engineering, a consumer tool called the Brand Matrix was developed as an attempt to minimize the potential for Amazon to negatively impact brands. This tool helps to illuminate Amazon's "black box", a term that relates to "anything that has mysterious or unknown internal functions or mechanisms".<sup>152</sup> The interworking's of Amazon are unknown and reasonably so. If Amazon's secrets were to be revealed, the company would lose its competitive edge. Thus, there is no way to be sure about true contents of Amazon's "black box", but the combination of this research, as well as the Brand Matrix described below, attempt to reveal a portion of it.

### **The Creation of the Brand Matrix Tool**

The Brand Matrix helps predict Amazon's impact on a specific brand by designating a brands' placement on a quadrant graph, which correlates to a specific x and y coordinate. The x-axis represents brand dilution and the y-axis ascribes scalability, the two sides of Amazon's collective intent. The lower a brand's vulnerability to brand dilution, the lower risks associated with its partnership with Amazon overall. The higher a brand's scalability, the more potential it has to benefit from the expansiveness of Amazon's platform.

Each brand is placed in its quadrant based off of the categories of the BCG Matrix, a graph that predicts a product's life cycle by evaluating its market growth against its market share. The BCG Matrix consists of the following categories; Stars, Cash Cows, Question Marks, and Dogs. Stars are in the top left quadrant of the matrix,

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<sup>152</sup> "Black Box." *Merriam-Webster*, Merriam-Webster, [www.merriam-webster.com/dictionary/black box](http://www.merriam-webster.com/dictionary/black%20box).



experiencing both high market growth and high market share. These strategic business units (SBUs) have found their niche and require substantial investments to fight off competitors while maintaining their growth rate. Cash Cows are found in the bottom left quadrant, enjoying a large share of the market within a slow growing industry. These products do not require a lot of investment since they are reaching maturity, causing companies to “milk” them for every last penny. Question Marks are placed in the top right quadrant of the matrix, possessing a low market share in a fast growing market. SBUs within this quadrant have an unknown future, either gaining traction and becoming a Star or falling into obsolescence and converting into a Dog. Lastly, Dogs are SBUs with a low market share in a slow growing market. These types of products lines tend to break even, earning what is put into them but lacking potential.<sup>153</sup> While the BCG Matrix is a great tool for predicting a brand’s potential, there are some limitations to the tool.

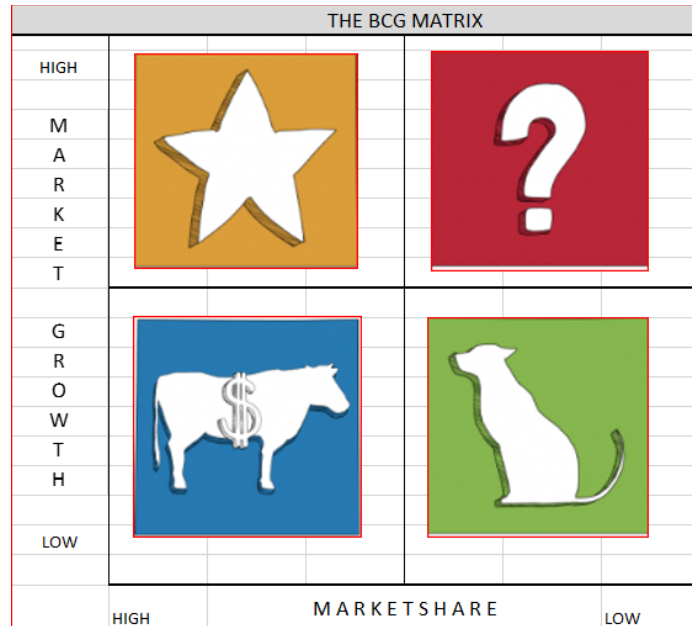
Market share and market growth are not the only determinants of industry attractiveness and competitive advantage, yet the matrix does not take any other factors into account. Another limitation is the assumption that the SBUs are working in isolation from each other. However, in reality one SBU may be helping another gain its competitive advantage. Lastly, the matrix’s broad definition of the market may result in an inaccurate categorization. The matrix fails to take into account that an SBU could be satisfying a specific niche, but lacks overall dominance in its industry as a whole. With

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<sup>153</sup> “How to Apply BCG Matrix to Your Company.” *Cleverism*, 19 Feb. 2018, [www.cleverism.com/how-to-apply-bcg-matrix-to-your-company/](http://www.cleverism.com/how-to-apply-bcg-matrix-to-your-company/).

all of this said, the BCG matrix is a useful tool to predict the future success of an SBU which is why it was used as the guideline for the creation of the Brand Matrix.<sup>154</sup>

### The BCG Matrix Layout:



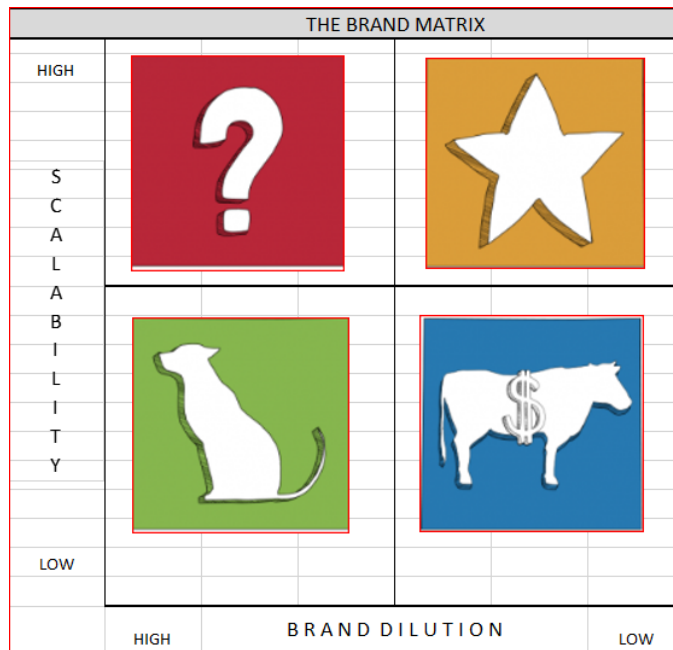
### The Brand Matrix Explained

The categorization of brands on the Brand Matrix utilizes the same four categories as the BCG matrix, however the Brand Matrix categories are a mirrored reflection of those of the BCG Matrix. This is due to the differing axes. As stated before, in the brand Matrix, the x-axis represents brand dilution measured from high to low. A high risk for brand dilution is a negative attribute for a brand interested in joining Amazon while low brand dilution increases the appeal of an Amazon partnership. The y-axis represents scalability measured from low to high. In the case of joining Amazon, high scalability is positive while low scalability is not. . These interactions result in the reflection of the quadrants.

<sup>154</sup> Ibid.

On the Brand Matrix, a star represents low brand dilution and high scalability. A Question Mark represents high brand dilution with high scalability. Furthermore, a Dog represents high brand dilution and low scalability. Lastly a Cash Cow, consists of low brand dilution with low scalability.

**The Brand Matrix Layout:**



In order to determine a brand’s scalability and brand dilution, there are three factors to be considered. Brands that are successful on Amazon have specific attributes, aggressively optimize their product content, and are not widely distributed in brick and mortar stores.<sup>155</sup> Thus, these factors are taken into account when determining a brand’s scalability and potential for brand dilution on the Brand Matrix.

The scalability of a brand is determined by the brand’s willingness to drive consumers to its product through effective marketing. It is important to note that once a

<sup>155</sup> Charlton, Graham. “Which CPG Brands Are Winning on Amazon?” *ClickZ*, ClickZ, 19 Dec. 2017, [www.clickz.com/which-cpg-retailers-are-winning-on-amazon/103363/](http://www.clickz.com/which-cpg-retailers-are-winning-on-amazon/103363/).

brand has determined its potential benefit of Amazon's scale, there are a number of vehicles to help them optimize its product content. AMS (Amazon Marketing Services) and Amazon Vine are both marketing tools available to the brands to drive consumers to point of purchase. AMS provides brands with a proven methodology that maximizes a brand's opportunity driven by the marketplace.<sup>156</sup> Amazon Vine program invites customers to become "Vine Voices", publishing reviews on new and pre-release products sold by participating vendors.<sup>157</sup> These services are "pay to play", but can incrementally grow the revenue of these brands.

A brand's scalability is also determined by the brand's current saturation in the market. A brand with low saturation is more likely to benefit from the breadth of Amazon. If a brand possesses both willingness to drive business and low market saturation, it is considered to have high scalability, benefiting from the positive end of Amazon's collective intent.

A brand's potential for dilution on Amazon is determined by its current brand perception. A brand is less likely to experience brand dilution from Amazon if consumers already perceive its product offering as unique and compelling. Successful brands meet specific needs, which protects their brands from erosion.

### **Applying the Matrix**

In order to apply the Brand Matrix a specific brand is selected for analysis. The market that the brand belongs to must be defined so that the brand is accurately compared to its appropriate competitors as well as the specific influencers within its

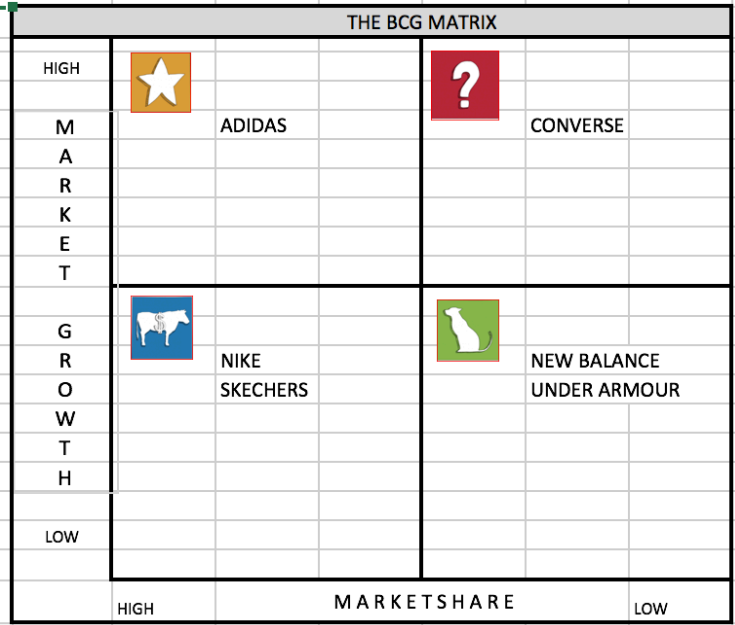
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<sup>156</sup> "Advertise on Amazon." *Amazon*, Amazon, [ams.amazon.com/](https://ams.amazon.com/).

<sup>157</sup> "Amazon Vine Program." Amazon, Amazon, [www.amazon.com/gp/vine/help](https://www.amazon.com/gp/vine/help).

market segment. Next the brands scalability is determined as well as its brand dilution. The combination of these two factors place the brand within in one of the four quadrants, assisting the brand in its decision to join Amazon and emphasizing the necessity to monitor its progress based on its placement.

**Example of the BCG Matrix:**



This example of a BCG Matrix was included in order to highlight the correlation between the BCG Matrix and the formation of a Brand Matrix, presented below. In this BCG Matrix, market growth of each specific shoe brand is plotted against each brand’s specific market share. Adidas is classified as a Star, possessing both high market share, 11.3% in 2017, and high market growth.<sup>158</sup> Adidas’ sneakers’ sales rose by 34% in 2017 and the brand’s “athleisure” categorization provides the company with the platform to

<sup>158</sup> US Athletic Footwear Brands Market Share 2017.” *Statista*, Statista, 2017, [www.statista.com/statistics/611891/united-states-athletic-footwear-brands-market-share/](http://www.statista.com/statistics/611891/united-states-athletic-footwear-brands-market-share/).  
<sup>158</sup> “Adidas Has Nearly Doubled Its US Sneaker Market Share - at Nike's Expense.” *Yahoo! Finance*, Yahoo!, 23 June 2017, [finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html](http://finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html).

capitalize off the current industry trend towards casual athletics.<sup>159</sup> Nike and Skechers are both Cash Cows with high market share, 34.7% and 6.3% respectively<sup>160</sup>, and low market growth.<sup>161</sup> These brands are highly distributed and widely known, limiting their ability to experience sustainable growth.<sup>162</sup> Additionally, Converse is a question mark since it has low market share, 3.6%, and high market growth<sup>163</sup>, especially in international markets.<sup>164</sup> Converse is an iconic brand that markets its authenticity and legacy in youth culture via strategic marketing campaigns, which has driven decades of growth.<sup>165</sup> Lastly, New Balance and Under Armour are Dogs with low market share, 3.7% and 2.4% respectively, and low market growth potential.<sup>166</sup> New Balance lacks brand cache while Under Armour has failed to find and maintain its niche.<sup>167</sup> These factors limit growth potential for both brands.

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<sup>159</sup> “Adidas Has Nearly Doubled Its US Sneaker Market Share - at Nike's Expense.” *Yahoo! Finance*, Yahoo!, 23 June 2017, [finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html](http://finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html).

<sup>160</sup> Ibid.

<sup>161</sup> Danziger, Pamela N. “Winning The Sports Retail Race: Under Armour and Nike Hit the Wall.” *Forbes*, Forbes Magazine, 4 Nov. 2017, [www.forbes.com/sites/pamdanziger/2017/11/01/winning-the-sports-retail-race-under-armour-and-nike-hit-the-wall/](http://www.forbes.com/sites/pamdanziger/2017/11/01/winning-the-sports-retail-race-under-armour-and-nike-hit-the-wall/).

<sup>162</sup> Hoium, Travis. “Better Buy: Nike vs. Skechers.” *The Motley Fool*, The Motley Fool, 20 Dec. 2017, [www.fool.com/investing/2017/12/19/better-buy-nike-nke-vs-skechers-skx.aspx](http://www.fool.com/investing/2017/12/19/better-buy-nike-nke-vs-skechers-skx.aspx).

<sup>163</sup> “Adidas Has Nearly Doubled Its US Sneaker Market Share - at Nike's Expense.” *Yahoo! Finance*, Yahoo!, 23 June 2017, [finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html](http://finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html).

<sup>163</sup> Kalogeropoulos, Demitrios. “Converse Has Been a Big Win for Nike Stock Since 2003.” *The Motley Fool*, The Motley Fool, 11 Nov. 2017, [www.fool.com/investing/2017/11/11/converse-is-a-drag-on-nike-stock-today-but-a-slam.aspx](http://www.fool.com/investing/2017/11/11/converse-is-a-drag-on-nike-stock-today-but-a-slam.aspx).





<sup>164</sup> Kalogeropoulos, Demitrios. “Converse Has Been a Big Win for Nike Stock Since 2003.” *The Motley Fool*, The Motley Fool, 11 Nov. 2017, [www.fool.com/investing/2017/11/11/converse-is-a-drag-on-nike-stock-today-but-a-slam.aspx](http://www.fool.com/investing/2017/11/11/converse-is-a-drag-on-nike-stock-today-but-a-slam.aspx).

<sup>165</sup> Rath, Julien. “The Shoe Does a Lot of Marketing on Its Own' – How Converse Uses Niche Stars to Grow Its Cultural Presence.” *Business Insider*, Business Insider, 1 May 2017, [www.businessinsider.com/julien-cahn-how-converse-chuck-taylor-is-using-niche-stars-to-grow-its-cultural-presence-2017-4](http://www.businessinsider.com/julien-cahn-how-converse-chuck-taylor-is-using-niche-stars-to-grow-its-cultural-presence-2017-4).

<sup>166</sup> “Adidas Has Nearly Doubled Its US Sneaker Market Share - at Nike's Expense.” *Yahoo! Finance*, Yahoo!, 23 June 2017, [finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html](http://finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html).

<sup>167</sup> Green, Dennis. “It's Official: Under Armour Is as Uncool as It Gets.” *Business Insider*, Business Insider, 20 Sept. 2017, [www.businessinsider.com/under-armour-shoes-uncool-consumers-2017-9](http://www.businessinsider.com/under-armour-shoes-uncool-consumers-2017-9).

### Example of the Brand Matrix:

THE BRAND MATRIX				
HIGH		CONVERSE	 ADIDAS	
S		UNDER ARMOUR		
C				
A				
L				
A				
B				
I				
L		SKECHERS	 NIKE	
I		NEW BALANCE		
T				
Y				
LOW				
	HIGH	BRAND DILUTION		LOW

The Brand Matrix places the shoe brands in the same four categories, however some of their specific categories shifted since the graph represents an entirely different analysis. The brand matrix is evaluating a brand's potential success on Amazon, while the BCG matrix demonstrates their current potential in their markets overall. Additionally, these shoe brands are already distributed on Amazon, thus their use in this example is merely for demonstrative purposes.

After the evaluation of Adidas' potential for brand dilution and scalability, Adidas remains a Star. The company is at low risk for brand dilution since it is perceived as compelling, partnering with Kanye West who epitomizes the company's brand image and providing consumers with a product that meets the current casual sportswear trend.<sup>168</sup> Adidas also has strong brand identification with its signature three

<sup>168</sup> "Adidas Has Nearly Doubled Its US Sneaker Market Share - at Nike's Expense." *Yahoo! Finance*, Yahoo!, 23 June 2017, [finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html](http://finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html).

stripes.<sup>169</sup> Adidas has high scalability on Amazon because the brand has the ability to optimize its product content with its revenue stream and is less distributed in brick and mortars than its competitors.<sup>170</sup> As stated before, Adidas is experiencing market growth, thus Amazon provides the company with the platform to capitalize off of its increased demand. The combination of these two factors results in the prediction of Adidas experiencing positive results from its partnership with Amazon. However, Adidas has to actively monitor its brand on Amazon to ensure that its risk remains low.

Nike remained a Cash Cow on the Brand Matrix after its analysis. With its high brand awareness, its risk for brand dilution is low. In addition, Nike is widely distributed, capturing the largest share of the athletic shoe market at 34.7% in 2017, thus its scalability potential on Amazon is low as well.<sup>171</sup> Nike has immense breadth and brand awareness, but it is experiencing flat stock shares and a declining market share.<sup>172</sup> Thus, Nike's growth potential is beginning to dwindle, lessening its scalability potential and allowing the company to ride out its success in the Cash Cow classification.<sup>173</sup> With this designation, Nike is left with the choice to enter Amazon or not participate in its retail channel. If Nike chooses to enter Amazon, it must consistently manage its brand identity in order to combat the brand diluting forces Amazon may have on its brand.

On the Brand Matrix, Converse remained a Question Mark while Under Armour converted into a Question Mark. Both of these brands are at a higher risk for brand

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<sup>169</sup> Ibid.

<sup>170</sup> Ibid.

<sup>171</sup> Ibid,

<sup>172</sup> Ibid.

<sup>173</sup> Ibid.



dilution, but have the potential to benefit from Amazon's scalability. Converse is an iconic brand, but Nike's ownership of the brand contributes to its vulnerability to brand dilution.<sup>174</sup> The brand is under the control of another entity, already limiting its individuality and uniqueness. This vulnerability for brand dilution is heightened on Amazon since the platform relinquishes brand control on its own. On a positive note, Converse has the potential to benefit from Amazon's scalability because the brand is not as widely distributed as its competitors, providing the company with the potential to utilize Amazon as a major distributor.<sup>175</sup>

Under Armour is a new brand that is struggling to find its place in the athletic shoe industry.<sup>176</sup> This unproven brand value contributes to its potential to experience brand dilution as a result of its partnership with Amazon. Furthermore, like Converse, Under Armour has the potential to benefit from Amazon's scalability. Under Armour has the lowest market share compared to its competitors and has not found its niche in the athletic shoe industry, thus distribution on Amazon provides the brand with a specific place to attract consumers, while the brand develops its target marketing strategies.<sup>177</sup> It is most imperative for Question Marks to monitor their brands on Amazon because they are experiencing a balancing act with Amazon's collective intent. With proper monitoring, the Converse and Under Armour have the potential to

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<sup>174</sup> Kalogeropoulos, Demitrios. "Converse Has Been a Big Win for Nike Stock Since 2003." *The Motley Fool*, The Motley Fool, 11 Nov. 2017, [www.fool.com/investing/2017/11/11/converse-is-a-drag-on-nike-stock-today-but-a-slam.aspx](http://www.fool.com/investing/2017/11/11/converse-is-a-drag-on-nike-stock-today-but-a-slam.aspx).

<sup>175</sup> Ibid.

<sup>176</sup> <sup>176</sup> Green, Dennis. "It's Official: Under Armour Is as Uncool as It Gets." *Business Insider*, Business Insider, 20 Sept. 2017, [www.businessinsider.com/under-armour-shoes-uncool-consumers-2017-9](http://www.businessinsider.com/under-armour-shoes-uncool-consumers-2017-9).

<sup>177</sup> "Adidas Has Nearly Doubled Its US Sneaker Market Share - at Nike's Expense." *Yahoo! Finance*, Yahoo!, 23 June 2017, [finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html](http://finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html).

experience positive upside, scalability, but could suffer negative downturn, brand dilution, without due diligence.

Skechers and New Balance are classified as Dogs on the Brand Matrix. Due to their high distribution and market saturation, these brands are less likely to benefit from Amazon's scalability. Skechers has a market share of 6.3%, the third largest after Nike and Adidas, and is highly distributed in both brick and mortars and online.<sup>178</sup> In addition, the Skechers brand lacks uniqueness. The company capitalizes off existing trends by copying niche brands' attributes and offering nearly identical products at a significantly lower price.<sup>179</sup> The Skechers' brand is already diluted and a partnership with Amazon is not going to improve the company's brand perception.

New Balance's classification as a Dog relates to the company's current market share of 3.7% and its high distribution.<sup>180</sup> The brand is widely available, but consumers do not desire its products as highly as its competitors, Adidas and Nike. In the eyes of the consumer, New Balance lacks appeal because of its absence of brand uniqueness.<sup>181</sup> This low desirability heightens New Balance's risk of experiencing brand dilution on Amazon's website. If New Balance and Skechers decide to go forward with their decision to sell their products with Amazon, they are willing to accept limited benefits due to their market position.

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<sup>178</sup> Ibid.

<sup>179</sup> Rakestraw, Alex. "Here's How the Sneaker Industry Is Fuelled by Copied Designs." *Highsnobiety*, Highsnobiety, 13 Mar. 2018, [www.highsnobiety.com/2017/08/29/sneaker-industry-copying/](http://www.highsnobiety.com/2017/08/29/sneaker-industry-copying/).

<sup>180</sup> "Adidas Has Nearly Doubled Its US Sneaker Market Share - at Nike's Expense." *Yahoo! Finance*, Yahoo!, 23 June 2017, [finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html](http://finance.yahoo.com/news/adidas-nearly-doubled-us-sneaker-market-share-nikes-expense-153106743.html).

<sup>181</sup> Liyakasa, Kelly. "How New Balance Builds Brand Equity." *AdExchanger*, 26 Feb. 2018, [adexchanger.com/advertiser/new-balance-builds-brand-equity/](http://adexchanger.com/advertiser/new-balance-builds-brand-equity/).

### **Limitations of the Matrix**

Similar to the BCG Matrix, the Brand Matrix has its limitations. The categorization of the brands is based on assumptions and there are other factors that influence a brand's success on Amazon. Furthermore, like the BCG matrix, the Brand Matrix assumes that the brands are working in isolation from each other. This is not necessarily true because some brands have several products within the same category that influence their overall success. For example, in the shoe industry, Nike sells Nike shoes, Converse, and Jordan's on Amazon; all competing within the same market segment, but benefiting the Nike brand. The Brand Matrix tool should be used as a guide, not a definitive course of action.

### **The Benefits**

The beneficiaries of this tool are widespread. Prospective brands are able to assess their potential on Amazon before induction, gaining the knowledge required to understand and predict the trajectory of their brand on Amazon. This information allows brands to decide if a partnership with Amazon is worth Amazon's imminent influence before they experience any consequences firsthand. Furthermore, current brands are better able to anticipate their future as a result of their partnership with Amazon and develop strategies to help dictate their course. With this tool, brands are able to act proactively, getting back some of the control they relinquished by joining the site. Lastly, this tool promotes Amazon's longevity and improves the perception of the company overall. If brands are able to protect themselves from brand dilution, Amazon is able to retain the security of brand leverage promoting its success. Also, this new focus on transparency heightens both consumers and brands evaluation of Amazon.

Both consumers and brands will feel supported by the company with this implementation of accountability and will remain loyal to company as a result, contributing to the company's long term success. As such, it is Amazon's duty to actively attempt to make a positive impact on its business partners and consumers; this tool is a step in the right direction.

## Conclusion

Online retail is Amazon's playground and it is clear that it makes the rules.<sup>182</sup> The company's breadth equates to no company before it, resulting in the impossibility of determining the overall impact of such an expansive and competitive force. However, what is known is that the effect of Amazon's collective intent is consequential to the brands it once depended on so heavily. The equalizing and attenuating of brands represented on Amazon and its infiltration into the daily lives of consumers weakens brand identity. The layout of the site and the customer review system develops an inaccurate depiction of brands. Additionally, loopholes in Amazon's collectiveness delegitimizes brands. Consumer reviews may be fraudulent with the recent onset of brushers, its FBA program creates a grey market for counterfeit goods, and its discount program diminished brand value by drastically cutting prices. All of these effects of Amazon's collective intent directly result in brand dilution and a loss of brand loyalty, but the consequences do not stop there. Amazon may seem like the beneficiary here, but unfortunately for the company there is no winner in this situation. Brands are like magnets that draw likeminded consumers who share values and beliefs to them, thus where brands sell their products is almost as important as the products themselves.<sup>183</sup> With that being said, if brands no longer have the leverage from their identity and support from their loyalty, there is no reason for a consumer to go to the store to

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<sup>182</sup>“Fulfilled by Amazon Program - What's The Impact On Brands?” *ValueWalk*, 14 Nov. 2017, [www.valuewalk.com/2017/11/amazon-program/](http://www.valuewalk.com/2017/11/amazon-program/).

<sup>183</sup> *Ibid.*

purchase it or in this case visit the website. A future without brands, is a grim future for Amazon.

In order to improve the future of Amazon, focusing on the need for brand retention and preservation, the Brand Matrix was created. The Brand Matrix provides brands with a tool to evaluate the risk of their partnership with Amazon, allowing them to take the appropriate measures to safeguard their brand identity. This added transparency not only supports brands, but consumers and Amazon as well. Consumers will continue to have access to the brands they desire and Amazon will continue to sell the brands it depends upon to succeed. Amazon is a force and its achievements are awe inspiring, but every Titan has an Achilles heel. As the evolution of retail demonstrates, no retail channel is immortal, thus it is imperative for Amazon to implement the Brand Matrix to support its brands, consumers, and its future.

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