# Contents

**Amazon Case Study: Part One** ................................................................. 2-4
**Vital Stats** .................................................................................................. 2
**Interesting Facts** ...................................................................................... 2
**Finance and Stock Market History** .......................................................... 2
**Organisational Culture: Amazon Leadership Principles** .......................... 3
**Operational Management: Distribution Centres (DCS)** ............................ 3
**Human Resource Management at Amazon** ............................................... 3-4
  **Benefits, Employee Stock, and Relocation Assistance** ............................ 4
**Key Success Strategies** ............................................................................. 4
**A Competitive Market – e-Readers and e-Books** ........................................ 4
**References** .................................................................................................. 4

**Darrell Lea’s Rocky Road** ........................................................................ 5-6
**A Brief History** ........................................................................................... 5
**What Went Wrong?** ................................................................................... 5-6
**Moving On** ................................................................................................ 6
**The Future** .................................................................................................. 6
**References** .................................................................................................. 6

**Media Watch** .............................................................................................. 7
**Hey! Retailing is Changing** ....................................................................... 7
**Food for Thought** ....................................................................................... 7
When Amazon.com was first launched it was an online bookstore which others thought doomed to fail. Many critics thought Jeff Bezos crazy when stocked his online bookshop with one million book titles. The e-business has since expanded to sell music, electronics, videos, pharmaceuticals, pet supplies, home improvement products and groceries. Not to mention its evolution as a marketplace for third party sellers, a supply chain management expert for business customers and Amazon Web Services (AWS) for networking infrastructure.

This case study will explore a range of successes and challenges faced by Amazon.com since its inception. Part One focuses on the range of strategies used by Amazon to succeed in a highly competitive market: including finance, HR, operations and culture.

**Figure 1: Jeff Bezos, founder of Amazon.**

*Source: Wikipedia Commons*

**Interesting Facts**

- Amazon is the No. 1 selling e-tailer in the world – Amazon’s web sales are five times Walmart, Target and Buy.com web sales combined.
- Amazon serves 137 million customers a week (19.5 million daily)
- There are over 152 million active Amazon customer accounts
- In its first week of trading, Amazon took orders for $12,438 worth of books
- It took eight years for Amazon to turn a profit

*‘Amazon gives the customers what they want: low prices, vast selection and extreme convenience’*

- Jeff Bezos (at a shareholders’ meeting in 2009)

**Vital Stats**

**Prime Function:** Amazon.com is American based multinational electronic commerce company.

**Founder:** Jeff Bezos (founded in 1994 in a garage in Seattle, launched online in 1995)

**Vision:** ‘Our vision is to be earth’s most customer centric company; to build a place where people can come to find and discover anything they might want to buy online’

**Start Up Costs:** $10,000 savings (personal equity), $44,000 bank loan, $245,000 borrowed from family. After 1996, an additional $1 million was raised from 20 or so angel investors (venture capital)

**Finance And Stock Market History**

As indicated in the vital statistics above, Amazon was started using $10,000 savings (personal equity), a $44,000 bank loan and $245,000 borrowed from family. After 1996, an additional one million dollars was raised from 20 or so angel investors (venture capital).

Amazon went public on NASDAQ under the ticker symbol AMZN in May 1997. The Initial Public Offering (IPO) price for shares was $18.00. By going public, Amazon acknowledged that only the stock market would be able to provide the kind of financing it was looking for. Heavy investment in establishing automated warehouses and distribution centres had left the business with over $2.1 billion in accumulated debt.

Today the shares are valued at approximately $260. However, this has not been a story of steady growth. For example, in 2001 the stock price plunged to just $5.97 with the dotcom crash. Amazon managed to survive this industry challenge period, though had to close two warehouses and lay off 15 per cent of staff in the process.

The company finally turned a profit in late 2001 despite the dotcom crisis. Even when profitable, Amazon have never declared or paid cash dividends on common stock; opting instead to retain all future earnings to finance future growth.

**STUDENT ACTIVITIES**

1. Give reasons why people may have thought an online bookstore was ‘doomed to fail’.
2. What is happening when a business expands the variety of products it sells as Amazon has done?
3. Amazon’s vision statement is very general. To what extent do you think this is achievable?
4. Why do you think it took Amazon eight years to make a profit?
5. Time Magazine’s ‘Brief History of Online Shopping’

[http://www.time.com/time/business/article/0,8599,2004089,00.html](http://www.time.com/time/business/article/0,8599,2004089,00.html)

provides an overview of the development of Amazon. Account for the rise of Amazon as part of the online shopping revolution.

**Vocabulary/concepts**

Define each of the following terms in their correct business context:

third party seller, supply chain management, infrastructure, venture capital
Organisational Culture: Amazon Leadership Principles

Organisational culture is the collective behaviour of humans who are part of an organisation and the meanings that the people attach to their actions. Culture includes the organisation values, visions, norms, working language, systems, symbols, beliefs and habits. Companies with positive adaptive corporate cultures, when combined with effective leadership efforts, consistently financially outperform other firms. In developing culture, Amazon has identified 14 key leadership principles which they state apply to every ‘Amazonian’:

- Customer Obsession
- Invent and Simplify
- Hire and Develop the Best
- Insist on the Highest Standards
- Frugality
- Earn Trust of Others
- Have Backbone; Disagree and Commit
- Ownership
- Are Right, A Lot
- Think Big
- Bias for Action
- Vocally Self Critical
- Dive Deep Leaders
- Deliver Results

STUDENT ACTIVITIES

6. In 1997, Amazon shares opened at $18 each and the business had $2.1 billion debt. Would you have purchased these shares back then? Would you now wish that you had?

7. Why did Amazon choose to take its business public – what kind of finance was it looking for?

8. What are some of the reasons why Amazon retains its profits rather than distributing them to shareholders?

9. Describe the organisational culture of your school or a workplace you have been in.

10. From the list of 14 Amazonian leadership principles, rank these from most to least important for a business of this size and type.

Vocabulary/concepts
Define each of the following terms in their correct business context:
organisational culture, adaptive corporate culture

Operation Management: Distribution Centres (DCS)

In 2008, Amazon had eight warehouses in the United States of America and another fifteen in the rest of the world. Amazon operates sites in Canada, China, France, Germany, Italy, Japan, Spain and United Kingdom; and maintains dozens of fulfilment centres around the world which encompass more than eight million square metres.

Figure 2: Amazon warehouse Glenrothes – Scotland, UK
Source: Wikipedia Commons

Amazon’s distribution and fulfilment centres are large, each with hundreds of employees. Employees are responsible for: unpacking and inspecting incoming goods; placing goods in storage and recording their location; picking goods from their computer recorded locations to make up an individual shipment; and shipping.

Each distribution centre is equipped with latest materials handling technologies such as ‘pick to light’ system which used a terminal display to guide workers through picking and packing process. Frequency technology is used to direct workers to warehouse locations via radio signals. They also use voice technology – computers communicate instructions to workers. Employees carry hand-held computers which communicate with the central computer and monitor their rate of progress. A picker with their cart may walk 15 or more kilometres a day.

Amazon has one of the most-sophisticated supply-chain systems in the world, and it was all built from scratch. Homemade applications handle nearly every aspect of its supply chain: warehouse management, transportation management, inbound and outbound shipping, demand forecasts, inventory planning, and more. Amazon takes a Six Sigma approach to its distribution operations, and applies lean manufacturing and Total Quality Management methodologies to its processes.

Development of a high level of automation is anticipated in the future following Amazon’s 2012 acquisition of Kiva Systems, a warehouse automation company.

STUDENT ACTIVITIES

11. What sort of skills would employees at an Amazon distribution and fulfilment centre need to have?

12. How would these skills differ for managers?

13. Go to http://www.six-sigma.com.au How would this approach apply to distribution?


15. Identify the type of integration Amazon has undertaken with its purchase of Kiva Systems http://www.kivasystems.com

Vocabulary/concepts
Define each of the following terms in their correct business context:
fulfilment centres, lean manufacturing, automation, total quality management

Human Resource Management At Amazon

Amazon currently employs more than 51,300 people around the world. Employees work in corporate offices, fulfilment centres, customer service centres and software development centres across North America, Europe and Asia. Employees contribute in a variety of functions and jobs, including:

- Software Development
- Information Technology
- Operations and Customer Service
- Finance and Administration
- Human Resources
- Legal (intellectual property and patent efforts, public policy initiatives, litigation)
Benefits, Employee Stock and Relocation Assistance

The basic benefits for full-time, U.S. employees (vary for other employees in other locations) include:

**Health Care:** A choice of three medical plans (employee and partner), dental plan, vision plan, life and accident coverage

**Employee assistance program** including dependent-care referral services and financial/legal services

**Time Off:** Salaried employees earn two weeks of vacation time in the first year, three weeks of vacation in the second; six personal days every year in addition to six holidays

**Savings Plans:** 401(k) savings plan (similar to superannuation in Australia) with a company match, several employee discount programs

**Employee Stock:** Most Amazon employees receive Amazon Restricted Stock Units (shares)

**Relocation Assistance:** Amazon may provide relocation assistance for certain positions to attract and retain quality employees

Key Success Strategies

1. **Knowing their market and industry:** Amazon was the first to market in selling books on the internet which gave it a competitive advantage, particularly as no bricks and mortar bookstore can offer three million books in one place!

2. **Focus on value-adding for customers:**

   ‘If you make customers unhappy on the Internet, they can tell 6,000 friends.’
   - Jeff Bezos, 1996

Amazon has developed a range of additional services for customers which enhance their e-commerce experience and build return custom. These include: user-contributed reviews, control of customer experience, similar books, interviews, recommendations. When you choose a book, Amazon will automatically indicate that ‘customers who bought this book also bought…’ and list the related titles based on purchase patterns of customers. This is used to intelligently cross-sell products. Evolving features include ‘Search Inside the Book’, 1-Click Shopping’, ‘Listmania’, ‘Wish List’

3. **Logistics:** Amazon has mastered distribution channels in-house to provide safe and quick delivery. This has been a deliberate choice as opposed to outsourcing to third party logistics companies. Actual deliveries are still through third party businesses including UPS and FedEx.

4. **Use of acquisitions, alliances and strategic partnerships** to grow and bring in new customers. Each new partnership brings more customers to Amazon’s site.

A Competitive Market – e-Readers

Amazon is locked in a high-profile battle with Apple in the fast-growing market for tablet devices and the digital content – music, movies, apps and books – consumed on them. The companies’ rival products, the Kindle Fire and iPad, are expected to be among the hottest purchases this Christmas.

Instead of trying to replace the printed book or the iPad, Amazon’s Kindle device has been developed with a few very differentiated features, dedicated to the reading experience to gain a competitive advantage.

Instead of trying to replace the printed book or the iPad, Amazon’s Kindle device has been developed with a few very differentiated features, dedicated to the reading experience to gain a competitive advantage.

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Chaffey, D. Amazon.com case study, found at http://www.smartinsights.com/digital-marketing-strategy/online-business-revenue-models/amazon-case-study/

STUDENT ACTIVITIES

16. Ask an employee you know about the benefits they receive for health care, superannuation, vacations and stock. How does this compare to the benefits Amazon offers?

17. Evaluate Jeff Bezos’ 1996 statement that an unhappy customer tells 6,000 friends. This sounds like an exaggeration – how might it be true?

18. What advantages would in house distribution channels have over outsourcing? What would be the disadvantages?

19. Using http://www.youtube.com/watch?v=GAf4vxGEOAo identify the areas of competitive advantage Kindle may have over other e-readers.

20. Account for the growth of e-readers over the past five to seven years.

21. If you were advising Jeff Bezos on the next step for growing Amazon would it be adding products or adding distribution? Why?

Vocabulary/concepts

Define each of the following terms in their correct business context:

- intellectual property
- patent
- competitive advantage
- cross-sell
- differentiated features
Darrell Lea’s Rocky Road

By Shani Hartley,
HSIE Teacher, Oakhill College

Think about your favourite chocolate. Picture it in its packet. Picture opening it. Imagine it in your mouth, how it feels as it melts and how it tastes. Was it a Darrell Lea chocolate? Probably not. Yet, there was a very public reaction when Darrell Lea announced it had entered voluntary administration in July 2012. Newspapers had corny headlines like the one above and even Australia’s Prime Minister, Julia Gillard, mourned the loss of the chocolate company.

A Brief History

Darrell Lea’s Website provides a detailed history that demonstrates how much the family was the business and the business was the family but this article will mainly concentrate on the business side of Darrell Lea’s story.

In 1927 Harry Lea was running a fruit and vegetable shop in Manly, on the northern beaches of Sydney, when he started making chocolate on the side and selling it in his shop. It was not long before the chocolate became the focus of the business and within a few years Lea formed a private company with his family. Darrell Lea expanded through Sydney, then, over the years, opened stores in nearly all states in Australia. It became a public company for a while, listing on the Australian Stock Exchange (ASX) in 1968, but returned to being a private company in 1982. They first exported in 2002 to the UK and later to the USA.

Despite this expansion being a solid indicator of success, there were underlying problems. Darrell Lea was tightly controlled by the family, even while it was a public company and fighting over control of the company caused a lot of friction within the family. The first time the Lea family allowed a non-family member to become a CEO was in 1997.

Other than family dramas, there were only a couple of major disputes. When the Work Choices legislation came into effect, Darrell Lea annoyed the unions, and consequently the Workplace Ombudsman, because they tried to shift teenaged casual employees onto contracts which reduced their entitlements to save costs. Another dispute was with Cadbury over the colour purple being used in chocolate packaging that Cadbury felt were too similar to theirs. Darrell Lea ended up winning the time consuming and expensive court battle in 2008.

Finally, in July 2012, Darrell Lea was placed into voluntary administration with PPB Advisory. At that point in time Darrell Lea consisted of 69 stores, approximately 700 staff and its confectionery was being distributed to more than 1800 retailers such as chemists and newsagents.

STUDENT ACTIVITIES

1. What is the difference between a private and a public company?
2. Why might Darrell Lea have decided to UNLIST from the ASX in 1982?
3. Construct a timeline of the key events in Darrell Lea’s business and link it to the business life cycle.
4. Outline the role of the workplace ombudsman.

Vocabulary/concepts

Define each of the following terms in their correct business context:

public company, private company, Australian Securities Exchange, workplace ombudsman, voluntary administration

What Went Wrong?

When Darrell Lea commenced it had a unique position in the Sydney market by providing locally made chocolate and other confectionary such as Rocklea and fresh liquorice. Meanwhile Haigh’s was operating much the same way in Adelaide but with less retail expansion. However, in the last twenty years an increasing number of quality foreign owned chocolatiers entered the market, like Lindt and Guylian, and they commenced a trend of chocolate cafés in the CBD. More recently, Max Brenner and Spanish churro ‘chocolaterias’ joined the party by spreading the chocolate café movement to the suburbs. All these companies were modern and slick in their approach. According to Stewart, in a feature article for The Australian, Darrell Lea ‘did not resonate with this new hip market’ and some shopping centres did not want Darrell Lea ‘because they were not seen as upmarket enough’.

As the market changed Darrell Lea steadfastly remained the same with only very minor tweaking to their marketing strategies. The maturity stage in the business life cycle had been maintained for decades but with increased competition Darrell Lea entered the post-maturity phase. It needed to consider renewal strategies but failed to do so. It therefore became stuck in the middle of the market, between supermarket mainstream cheap brands and the more elite brands offering an experience to accompany their products. Darrell Lea had a strong brand presence by being known as a family business and through its distinct packaging and presentation of stores and staff. For example, stores have always been cluttered and staff uniforms, until quite recently, were adorned with bows originally designed in the 1930s. The Darrell Lea style was appearing dated next to its slick, modern competitors. Socially, change was occurring in the market with a move to fair trade and organic chocolate. Darrell Lea was late to address this trend, by joining the World Cocoa Foundation and did not capitalise on it effectively. The company was failing to analyse the trends in the market and applying them to maintain a competitive advantage.

Another external influence was the Global Financial Crisis (GFC). There is a theory that chocolate should be able to successfully ride out a recession due to its perception as a cheap luxury item. Yet, it did, possibly driving its customer base to supermarket chocolate and the chocolate consumers who remained wealthy had already shifted to the competition.

Obviously the vision, strategic thinking, adaptability to change and other skills of management that existed when Darrell Lea first commenced were no longer evident in the company. Whether it was due to family bickering or simply refusing to see the need for change, managers were unable to move Darrell Lea into the renewal stage of the business life cycle.

The Lea family started injecting more money into the company as it floundered during and after the GFC but to no avail. In July 2012 the company was voluntarily placed in administration with PPB Advisory. Sales had dropped 20 per cent over the previous five years and a loss of $3.3 million was recorded.

To discover more about the Lea family, watch Dynasties (ABC TV, Series 4, Episode 4, information available at http://www.abc.net.au/dynasties/ep04.htm)
Cara Waters wrote about five lessons from Darrell Lea’s demise
1. Beware of the middle ground
2. Do not lose the magic
3. Respond to industry trends
4. Address declining sales
5. Keep up with the competition

Longevity of the business, and those that contributed to its demise.

The Future
At the moment Darrell Lea’s stakeholders are hopeful the Quinn family can turn the confectionery company around, much like it did with another company. Within 12 months of acquiring the Bush Petfood Factory, it was turned to success, even though it had been losing around $400,000 a day (Power, 2012). The swift removal of Darrell Lea’s expensive retail outlets and the cessation of the least profitable products should stem expenses and give the Quinns the opportunity to invest money elsewhere. It will be interesting to see how Darrell Lea products sell now they are on supermarket shelves, repositioning its competitive standing as value for money instead of trying to be an elite product. It is probably too late for that now, given the success of the competition. Since it is a private company the public do not have access to the financial accounts so it is difficult to make a reliable prediction. However, it seems at least for now the Quinns are making the right moves that will see the company move into a long phase of renewal.

Moving On
Darrell Lea was officially sold 9 September 2012. All company stores ceased trading and most employees lost jobs, with only 83 manufacturing and administrative staff staying with the business. However, all were paid superannuation and wage entitlements in full. The Quinn family believes they can achieve what the Lea family could not. Like the Leas, the Quinns have experience in running a company with vertical integration in manufacturing and retail distribution, except it is with pet food instead of chocolate. They are now a smaller version of the global company, Mars, which also specialises in pet products and confectionery.

A month after the sale Power (2012) talked to Klark Quinn, one of the new owners of Darrell Lea. He had been studying the operations of Darrell Lea’s manufacturing and has come to know the transformation processes in detail.

References

Vocabulary/concepts
Define each of the following terms in their correct business context:
competitive advantage

STUDENT ACTIVITIES

5. Describe the impact of competitors like Max Brenner on Darrell Lea’s sales. What do chocolatiers like these do that Darrell Lea doesn’t?
6. Recommend and justify a strategy Darrell Lea could use to effectively compete against chocolate cafes and foreign owned chocolatiers like Lindt.
7. In your opinion, why is Darrell Lea seen as ‘not upmarket enough’ by some shopping centres?
8. What are relevant renewal strategies Darrell Lea could use in the post maturity phase of its business life cycle?
9. Darrell Lea failed to analyse “trends in the market”. What trends would the writer be referring to?

STUDENT ACTIVITIES

10. Look at the Darrell Lea website www.dlea.com.au. What products are currently advertised prominently on the site? Is this advertising appealing? Which market segment is the website targeting?
11. What advice would you give to the Quinn family to turn Darrell Lea into a profitable business once again?
12. Evaluate the role of the Lea family in managing this business from 1927-2012. Explain the business activities that contributed to the longevity of the business, and those that contributed to its demise.

What Went Wrong? (cont’d)

Moving On

Some of the manufacturing processes and equipment will be modernised and 600 products would probably be axed to concentrate on distributing the 200 remaining products. According to the Darrell Lea website the confectionery is now being sold by IGA, Coles and Woolworths. Marketing has been ramped up with more social media interaction and competitions. However, it is difficult to shake the idea that the brand is dated when the website is not kept up to date, containing old information, such as still advertising for Father’s Day 2012 in the ‘New Products and Gifts’ section in January 2013.

References
Hey! Retailing Is Changing

Sixty years ago if you wanted groceries, you went to a corner store with a list and carried the small number of items home in a bag. If you wanted major household items you traveled into the city to a department store or sourced the items from a catalogue.

Retailing is always changing. The big department stores, now decentralised are struggling but are adapting to challenges. Food retailers, long dominated by a duopoly of Woolworths and Coles, have new competitors.

Multichanneling, using smart phone apps and other electronic devices, social media platforms and pop-up stores are being engaged by retailers to entice customers. Department stores like David Jones are upgrading websites and warehouses and using a variety of mediums to make contact with buyers. These include in-store, on-line, mobile apps, and social commerce sites.

Pop-up stores are another concept being used where specialist retailers lease space at higher rents for a short time periods coinciding with special events such as Christmas. Some pop-up stores such as Christmas decorations may locate in empty retail spaces or premises due for demolition or refurbishment.

Food For Thought

The five main players in the food retailing sector are Woolworths and Coles, Aldi and Metcash (IGA) and Costco. Woolworths and Coles operate a near duopoly. They have increased their market share of the $112 billion grocery market from 48 to 56 per cent over the last five years. They have been locked in a price competition since Coles was taken over by Westfarmers. Both have entered the petrol retailing sector by offering customers discount coupons based on in-store shopping. In 2003, in a joint venture with Shell, Coles re-branded petrol stations as Coles Express outlets. Both retailers have used staples such as milk and bread as loss leaders to attract customers.

The price wars have seen other casualties. Suppliers such as Heinz tomato sauce and Gourmet Food Holdings (Rozella sauce) have had to close factories as the price war has been partially conducted by squeezing supplier profit margins. Farm produce suppliers who operate as ‘price-takers’ have had their profit margins squeezed due to the extent of market control exercised by the big retailers.

Corner shops have been virtually squeezed out by discounting tactics though hundreds of single brand convenience stores such as 7-Eleven have taken their place. Metcash has seen its supermarket profits decline in recent years.

Two other players in the grocery market are German based Aldi and American based Costco. Aldi has 300 stores across Australia. It offers a limited range of discounted items. Costco is a relative newcomer with a difference. It charges an upfront fee of $60 to become a member. Items must be purchased in bulk at significant savings. It also offers non grocery items such as discount tyres, large screen TVs, furniture and office equipment.

STUDENT ACTIVITIES

1. Define the term ‘duopoly’. What is the impact in this situation?
2. How can phone apps be used to attract customers?
3. Describe how and why social media has influenced purchasing decisions in your age group.
4. List advantages that you see in pop-up stores for customers, retailers and property owners.
5. Make a list of items that you or your family has bought from non-shop front retailers recently.
6. Where would you choose to purchase these items: bread/milk, formal outfit, a lounge, diamond ring, music and a laptop? Would this have changed over time?
7. Research Costco and write a brief report on their American and Australian operations. Which market segment is Costco most likely to appeal to?
8. Describe and assess various types of customer loyalty schemes that the major retailers offer their customers.
9. Define a ‘joint venture’. Research who Woolworths have engaged with in their petrol retailing operations.
10. There are winners and losers in the current food wars. Comment.
11. Suggest factors that may have may have contributed to Aldi’s expansion in Australia.
12. Consider the costs and benefits for a family in becoming a Costco member.