

Marketing Excellence

>>Amazon.com

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Founded by Jeff Bezos, Amazon.com started as the “world’s largest bookstore” in July 1995. A virtual bookstore that physically owned no books, Amazon.com promised to revolutionize retailing. Although some may debate whether it accomplished that, Bezos clearly blazed a trail of e-commerce innovations that many have studied and followed.

Amazon.com set out to create personalized storefronts for each customer by providing more useful information and more choices than could be found in your typical neighborhood bookstore. Readers can review books and evaluate them on a one- to five-star rating scale, and browsers can rate the reviews for helpfulness. Amazon.com’s personal recommendation service aggregates data on buying patterns to infer who might like which book. The site offers peeks into books’ contents, index, and beginning pages with a “search inside the book” feature that also lets customers search the entire text of 120,000 books—about as many titles as are in a Barnes & Noble bookstore. Amazon.com’s one-click shopping lets buyers make purchases with one click.

Over the years, Amazon.com has diversified its product lines into DVDs, music CDs, computer software, video games, electronics, apparel, furniture, food, toys, and more. In addition, it has established separate Web sites in Canada, the United Kingdom, Germany, France, China, and Japan. Amazon.com continued to expand its product offerings with the 2007 launch of Amazon Video On Demand, allowing consumers to rent or purchase films and television shows on their computers or televisions. Later that year, Amazon.com introduced Amazon MP3, which competes directly with Apple’s iTunes and has participation from all the major music labels. The company’s most successful recent product launch was the Amazon-branded Kindle, an

electronic book reader that can deliver hundreds of thousands of books, magazines, blogs, and newspapers wirelessly in a matter of seconds. As thin as a magazine and light as a paperback, the device was Amazon.com’s number one selling product in 2009.

To overcome the lag between purchase and delivery of product, Amazon.com offers fast, inexpensive shipping. For a \$79 annual fee, Amazon.com Prime provides unlimited free express shipping for most items. While free shipping and price cuts are sometimes unpopular with investors, Bezos believes it builds customer satisfaction, loyalty, and frequency of purchase orders.

Amazon.com has established itself as an electronic marketplace by enabling merchants of all kinds to sell items on the site. It powers and operates retail Web sites for Target, the NBA, Timex, and Marks & Spencer. Amazon.com derives about 40 percent of its sales from its million-plus affiliates called “Associates,” independent sellers or businesses that receive commissions for referring customers who then make a purchase at the Amazon.com site. Associates can refer consumers to Amazon.com through a variety of ways, including direct links and banner ads as well as Amazon Widgets, mini-applications that feature Amazon.com’s wide selection of products.

Amazon.com also launched an affiliate product called aStore, which gives Associates the ability to create an Amazon-operated online store easily and without any programming knowledge. Amazon.com then supports these merchants by providing new tools for their Web site, offering access to Amazon.com’s catalog of products, and handling all payments and payment security through its Web Services. Amazon.com can also “pick, pack and ship the products to the merchant’s customers anytime and to any place” through its Fulfillment by Amazon (FBA). This essentially creates a virtual store for the third-party merchants with low risk and no additional cost.

One key to Amazon.com’s success in all these different ventures was a willingness to invest in the latest Internet technology to make shopping online faster, easier, and more personally rewarding for its customers and third-party merchants. The company continues to invest in technology, is focused on the long-term, and has successfully positioned itself as a technology company with its wide range of Amazon Web Services. This growing collection of infrastructure services meets the retailing needs of companies of virtually all sizes.

From the beginning, Bezos stated that even though he started as an online bookstore, he eventually wanted to sell everything through Amazon.com. Now, with more than 600 million annual visitors, the company continues to get closer to that goal with revolutionary products like the Kindle and cloud computing Web services.

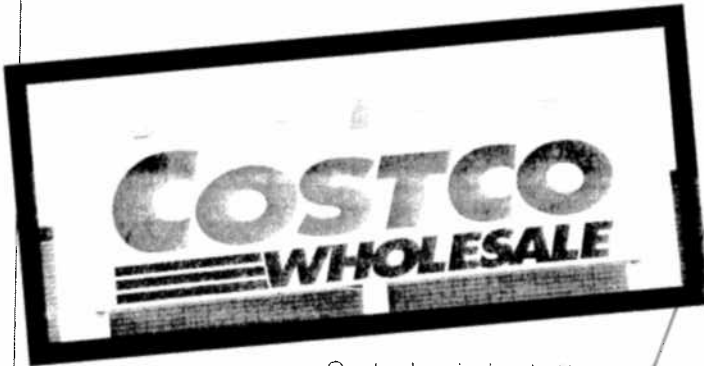
Questions

1. Why has Amazon.com succeeded online when so many other companies have failed?
2. Will the Kindle revolutionize the book industry? Why or why not?
3. What's next for Amazon.com? Is cloud computing the right direction for the company? Where else can it grow?

Sources: Dick A. DeMoss, "E-commerce August 19, 2009, pp. 57-58; Robert D. Bell, "Risk Bet," *BusinessWeek*, November 13, 2006; Eric S. Lipton, "The Great E-Reader 2.0," *Wired*, October 2005, pp. 84-86; Eugene C. Lee, "Kindle Text?" *Potential*, February 7-9; Robert D. Her, "The Wizard of Web Reading," *BusinessWeek*, December 2, p. 18; Chris Taylor, "Smart Labels," *Time*, November 17, 2009, p. 88; Deborah S. S. Questions for Jettre, P. Bezos, "New York Times," December 2, 2009; Patrick S. Amazon.com CEO Jeff Bezos Reins Kindling Hot Concepts, *Investor's Daily Business*, December 31, 2009; Amazon.com; Amazon.com 2009 Annual Report.

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>> Costco



Costco's mission is "to continually provide our members with quality goods and services at the lowest possible prices." With nearly 60 million card-carrying members and over \$71 billion in sales, Costco is now the largest warehouse club chain in the United States, the third largest retailer in the United States, and the ninth largest retailer in the world. Costco's success comes from years of building consumer loyalty through its dedicated merchandising and pricing strategy combined with no-frills, cost-cutting policies.

Costco's merchandising strategy focuses on offering a broad range of brand name and private label merchandise at extremely low prices. But unlike a grocery store that carries 40,000 SKUs or a Walmart that can carry up to 150,000, Costco carries approximately 4,000 SKUs—only the fastest-selling flavors, sizes, models, and colors from a single vendor in each category. This efficient product sourcing results in several outcomes: high volume of sales, rapid inventory turnover, extremely low prices, and better product manageability.

Costco buys its merchandise directly from the manufacturer. Products are shipped directly to Costco warehouses or to a depot, which reallocates the shipments to Costco warehouses within 24 hours. This process eliminates several steps such as using a distributor and other intermediaries, eliminating costs associated with storage,

additional freight, and handling. At the warehouse, shipments are often taken directly to the floor, unwrapped, and left on the pallet, ready to sell.

Over the years, Costco has expanded its products and services from simple boxed items such as cereal and paper products to more complex items such as fresh produce and flowers, which must be displayed attractively and managed more closely. Today, it sells dairy, frozen goods, seafood, clothing, books, computer software, vacuums, home appliances, electronics, jewelry, fine wine, liquor, hot tubs, and furniture. Costco's services include pharmacies, optometrists, photo processors, courts, and gas stations. The company's private label, Kirkland Signature, provides consumers with high-quality products at even more discounted prices than the comparable branded item. Kirkland Signature products range from diapers to bed sheets to coffee and makeup.

Of the 4,000 products sold, 3,000 are staples that are at Costco week after week, while the remaining 1,000 rotate as part of Costco's "treasure hunt." These special items are offered only temporarily and can be as expensive as Coach bags, Waterford crystal, and expensive jewelry. Costco believes its treasure hunt items create excitement and increase consumer loyalty, bringing back bargain hunters again and again.

Costco's pricing strategy is transparent: The company limits the markup of any branded item to 14 percent and any private-label item to 15 percent. (Supermarkets and department stores mark up items anywhere from 25 percent to 50 percent.) If a manufacturer's price is too high, the company will not restock the item. Costco's CEO, Jim Sinegal, explained, "The traditional retailer will say: 'I'm selling this for \$10. I wonder whether I can get \$10.50 or \$11.' We say: 'We're selling it for \$9. How do we get it down to \$8?'"

Costco's cost savings tactics extend to its 560+ warehouse locations around the world. Most average 140,000 square feet with floor plans designed to optimize selling space, the handling of merchandise, and the control of inventory. Decor is simple: concrete floors, bare-bones signage, and product displays that consist of pallets right off the