Amazon.Com’s European Distribution Strategy

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Amazon.com in Europe

Launch in Europe

• Launched first in UK & Germany – largest online & book markets in Europe
• Acquired existing players – became market leader
• Launch in France – built from scratch
• Faced tough competition from existing French players

Mode of Operation

• Europe – an aggregation of regional markets – varying legal & cultural requirements
• Maintained three dedicated sites – identical in functionality – language & content unique to region

Challenges – Globalization & Localization

Regulatory Challenges

• Different regulations – adapt strategies to remain competitive
• Customize payment options to suit preferred payment modes in different regions
• Customization => New Process => Increased COSTS

Different Procurement strategies

• US procurement strategy could not be replicated – need to establish direct contact with publishers/distributors
• Delay in fulfillment
• Inconsistent information flow

Transportation

• Regional Postal services failed to provide reliable cross-border logistics services
• Lack of competition in postal services or pan-Euro carriers – increased COST, decreased STANDARDS
Need for considering EDN

- UK
- FRANCE
- GERMANY

3 Independent subsidiaries – Run in a Decentralized manner

Dedicated warehouses – Unsynchronized Supply Chain Strategies

Reduced Profitability – Need for cost-cutting & restructuring

Initial Moves

- Consolidation of European Customer Service Operations to Netherlands - doing away with separate centers
- Unification of marketing & branding activities at European Level

Moving Forward – Assessing the EDN Opportunity

- For profitable operations & further expansion – standardize processes, look for operational synergies
- Leverage power of US techniques – establish comparable metrics – look for common insights across the 3 countries
- Continuously monitor performance (internal & vendor’s) – identify common issues
- Assess the possibility of a consolidated European Distribution Network (EDN)
Option-1: Single EDC

**SINGLE EUROPEAN DISTRIBUTION CENTER**

<table>
<thead>
<tr>
<th>PROS</th>
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<tbody>
<tr>
<td>• Lower overhead costs</td>
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<td>• Simplified Internal communication</td>
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<td>• Increase in bargaining power due to higher allocation volumes</td>
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<td>• Inventory location strategically determined lead to expansion in product selection</td>
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<td>• Reduced risk of relying on single DC</td>
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<td>• Facilitate expansion in other European countries</td>
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<th>CONS</th>
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<tr>
<td>• Reduction in delivery service levels</td>
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<td>• Handling vendor specifications centrally</td>
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<td>• Potent issues raised by Centralised buying</td>
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<td>• Increased coordination required among departments</td>
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2 DCs for NORTH & SOUTH EUROPE

• Reduction in delivery times in many markets
• But still most issues pertaining to SINGLE DC remain
## Option-2: EDN with 3 DCs

<table>
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<th>3 DCs with EDN as a backup</th>
<th>3 DCs – Product category specific</th>
<th>3 DCs – Full Integration</th>
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<tbody>
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<td><strong>PROS:</strong></td>
<td><strong>PROS:</strong></td>
<td><strong>PROS:</strong></td>
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<td>• No need to relocate or build/acquire new infrastructure.</td>
<td>• Based on demand patterns stocks for a particular category could be maintained at a particular DC – Reduced holding costs at other locations</td>
<td>• Activities could be spread among the three locations, for example books, media and smaller items in France, Marketplace headquarters in the UK, and bulk or special order items in Germany.</td>
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<td>• Reduced lead times – all products available at all locations</td>
<td>• Will lead to specialization of services and processes – better service levels and operational efficiency</td>
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<td>• Redundancy ensured in case of major disruption at one of the locations</td>
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### CONS – 3 DC approach

- Duplication of activities & infrastructure
- Increased demand for mgmt. & personnel
- Administration/coordination of multiple IT systems
Final Recommendation

• It is not a good idea to ignore the local needs and preferences of each country.
• At the same time, centralization has the potential to bring down costs and enhance customer experience.
• We thus recommend a mix of the two strategies to design the distribution network.

• Develop a Central Distribution centre for holding the inventory of common product items across all regions. (eg. CDs, US Books etc.)
• Develop Local Distribution Centre for products specific to the region/country.
• Utilize local distribution centers in case they have any specific strategic advantages.