



UNIVERSIDADE CATÓLICA PORTUGUESA

# Competitive Advantage in the Age of Digital Platforms

The case of Amazon.com

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Católica Porto Business School

2020





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# Competitive Advantage in the Age of Digital Platforms

The case of Amazon.com

Final work in the form of a Dissertation  
presented to Universidade Católica Portuguesa  
to obtain a master's degree in Management with specialisation in Service  
Management

by

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September 2020



# Acknowledgements

The elaboration of this dissertation was one of the most challenging, arduous, but also stimulating and gratifying works I have ever done. It seals the end of a hard-working, special and rewarding academic life and the beginning of a long time desired professional journey.

The work of a single person could not be done without the support of important and exceptional people. Therefore, I cannot forget those that helped me during these past months, and I would like to leave a special thanks:

To Dr Chris Saunders, my supervisor, for his availability, scientific knowledge, meaningful insights and endless support.

To my parents, for their unconditional love, warm hugs and encouraging words that filled me with strength to keep going and to achieve my goals and dreams.

To my sister and best friend, for the exciting brainstorming and debates, for all the laughs and good moments shared and for always being my number one supporter.

To my boyfriend, for the affection, for the small acts of love and for the motivation given to be my best self and to not be afraid to pursue my dreams.

To my friends, both in Portugal and Lancaster, for living this experience with me, transforming it into something unique, joyful and certainly unforgettable.

To all the professors that I encountered during my academic life, for giving me the tools and knowledge to pursue my degree and to grow both academically and personally.



# Resumo

No mundo cada vez mais digital, interconectado e dinâmico em que vivemos hoje, a única constante é a mudança. A economia digital mudou significativamente a forma como as empresas competem, operam e colaboram.

As teorias tradicionais de vantagem competitiva, como as Cinco Forças de Porter, estratégias genéricas e a visão baseada em Recursos de Barney, são baseadas numa concepção de um mundo que é essencialmente estático. Indústrias claramente definidas, criação de barreiras para proteger as empresas face à concorrência, pureza estratégica, recursos específicos da empresa que são valiosos, raros e difíceis de imitar pelos concorrentes e até mesmo a sustentabilidade da vantagem competitiva são questionadas num mundo de plataformas digitais.

Embora haja uma vasta e rica literatura sobre vantagem competitiva, a literatura relativa à economia digital e às plataformas digitais ainda está a emergir. Deste modo, este estudo visa responder a duas questões de investigação, nomeadamente: (1) Como é que a economia digital mudou a vantagem competitiva? (2) Como é que a vantagem competitiva é alcançada na era das plataformas digitais?

Para este propósito, foi realizado um caso de estudo sobre a Amazon.com recorrendo apenas a dados secundários para entender como este gigante digital construiu o seu caminho na economia digital, crescendo exponencialmente tanto em escala como em âmbito e tornando-se na empresa mais valiosa do mundo em 2019.

Esta dissertação conclui que o que se acredita como verdadeiro sobre a vantagem competitiva, resultante dos modelos tradicionais de estratégia, necessita de ser alterado para incluir novos conceitos à luz da economia digital

e das plataformas digitais. Teorias que valorizavam indústrias definidas, posicionamento estratégico para evitar a concorrência, construção de barreiras para proteger os negócios, preservação dos recursos distintos dentro dos limites da empresa deram lugar a indústrias indefinidas, *network effects*, foco no consumidor, ecossistemas e inovação.

O poder da economia digital está ainda a ser revelado; isto é apenas o começo da revolução das plataformas digitais.

**Palavras-chave:** Vantagem Competitiva; Economia Digital; Plataformas Digitais; Cinco Forças de Porter; Estratégias Genéricas; Visão Baseada em Recursos; Amazon.com.

# Abstract

In the increasingly digital, interconnected and dynamic world that we live in today, the only constant is change. The digital economy shaped the competitive landscape, changing the way businesses compete, operate and collaborate.

Traditional theories of competitive advantage, such as Porter's Five Forces, generic strategies and Barney's Resource-based view, are rooted in a conception of the world that is essentially static. Clearly defined industries, barriers that protect businesses from competitors, strategic purity, and firm-specific resources that are valuable, rare and difficult for competitors to imitate and even the sustainability of competitive advantage are questioned in a world of digital platforms.

Although there is a vast and rich literature on competitive advantage, research on the digital economy and digital platforms is still emerging. Therefore, this study aims to answer two research questions: (1) How did the digital economy change competitive advantage? (2) How is competitive advantage achieved in the age of digital platforms?

For this purpose, a case study on Amazon.com was conducted relying only on secondary data to understand how this digital giant built its path on the digital economy, growing exponentially in scale and scope and becoming the most valuable company in the world in 2019.

This research concludes that once taken-for-granted assumptions on competitive advantage may need to change to include new concepts in light of the digital economy and digital platforms. Theories that valued defined industries, avoidance of competition, building moats to protect businesses, keeping distinctive resources inside the boundaries of the firm have given place

to blurred industry boundaries, network effects, customer centricity, ecosystems and innovation.

The power of the digital economy is just starting to reveal itself; this is only the beginning of the platform revolution.

**Key words:** Competitive advantage; Digital economy; Digital platforms; Porter's Five Forces; Generic strategies; Resource-based View; Amazon.com.



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# Abbreviations

AAP – Amazon Advertising Platform

AMG – Amazon Media Group

AMS – Amazon Marketing Services

AWS – Amazon Web Services

BMI – Business Model Innovation

FBA – Fulfillment by Amazon

ICT – Information and communication technologies

IO – Industrial organisation

RbV – Resource-based View



# Introduction

Understanding how firms achieve and sustain competitive advantage has been the central question for decades in the field of strategic management (Barney, 1991; Teece, Pisano, & Shuen, 1997).

Therefore, strategy taught for several years in business schools and practised in the vast majority of companies is mostly concerned with analysing the industry structure, choosing a generic strategy and keeping the valuable, rare and difficult to imitate resources within the boundaries of the firm in order to achieve sustainable competitive advantage.

According to Porter (2001), the fundamental drivers of profitability are industry structure and sustainable competitive advantage. Porter's Five Forces takes the industry as the unit of analysis and besides competition, four additional forces can influence industry profitability: buyers, suppliers, new entrants and substitutes. Therefore, it is only by analysing all the five forces that a company can fully understand the structure of its industry and choose a profitable position, protected from the rest of the forces. In this sense, the strongest the forces, the least attractive and profitable an industry is (Michael E. Porter, 1980a, 2008).

However, to be more profitable than the average performer, a company needs to achieve a sustainable competitive advantage (Michael E. Porter, 2001). This can be done by pursuing only one out of three generic strategies: cost leadership, keeping costs low by offering standardised products; differentiation, by offering unique benefits to which customers are willing to pay higher prices for; and focus strategies – low cost or differentiation – by serving a segment in an industry (M. E. Porter, 1985).

Contrary to Porter that emphasises the external environment by analysing the industry structure, Barney emphasises the internal resources. According to this author, sustainable competitive advantage is achieved when a company's resources are valuable, rare and difficult for competitors to imitate (Barney, 1991).

However, the recent advances in information and communication technologies and the internet have fundamentally changed the way firms compete, create and deliver value (Andersen & Wong, 2013). What once was believed as true and taken-for-granted assumptions about competitive advantage in static environments, in more complex and fast-changing environments may no longer apply.

Today we are witnessing a *"shift from relatively static industries to dynamic digital ecosystems"* (Koch & Windsperger, 2017b, p. 4). Therefore, a *"static snapshot of a moving industry is not an adequate means for formulating strategy in an increasingly dynamic environment"* (Sampler, 1998, p. 344).

In the digital age, competitive advantage may no longer emerge from choosing an attractive industry, unique strategic positions and a set of resources. Instead, it may arise from building platforms with strong network effects and an ecosystem around it, promoting not only competition but also collaboration with external partners.

Although there has recently been an increased attention to study the digital economy, digital platforms and dynamic environments (Cusumano, Gawer, & Yoffie, 2019; McGrath, 2013a; Parker, Alstyne, & Choudary, 2016; Rogers, 2016; Tapscott, 2014), no attempt has been made to deeply understand how they impact and challenge the traditional assumptions in strategic management research. In this sense, there is a need for *"new strategic frameworks that are aimed at deliberately harnessing the unique capabilities of digital technology"* (Yoo, Henfridsson, & Lyytinen, 2010, p. 730). Consequently, new concepts and

alternative theories may be required to explain this new world (D’Aveni, Dagnino, & Smith, 2010).

Thus, it is possible to identify a research gap, in which strategic management research literature has not been giving the deserved attention to these phenomena and to other sources of competitive advantage considering the digital economy and digital platforms.

This research is relevant because the digital and platform revolution is already here – the rules of business have changed and need to be rewritten (Rogers, 2016). Or should we continue to use theories and frameworks that may no longer apply to the interconnected and dynamic world we currently live in?

Therefore, the aim of this research is to address this research gap and answer the following research questions:

- *“How did the digital economy change competitive advantage?”*
- *“How is competitive advantage achieved in the age of digital platforms?”*

For this purpose, the dissertation is structured in five parts. In the first part, a literature review will be conducted in the field of the research topic, mentioning the key concepts and theories. Hence, the literature review will focus on theories that gained widespread recognition and acceptance in strategic management research: Porter’s Five Forces and generic strategies frameworks and Barney’s Resource-based View. Afterwards, these theories will be criticised in the light of the digital economy and digital platforms.

The second part concerns the research methods, in which the methodology chosen to conduct this research will be described and justified as well as the techniques used for data collection and analysis. Thus, to answer the research questions, the research will follow a qualitative approach and a single case study relying only on secondary data will be conducted.

The third part presents the case study done about Amazon.com, providing an overview of the company, describing and explaining its evolution in scale

and scope and the principles behind such a unique and remarkable company. For the purpose of this research, Amazon was chosen as it represents the perfect example of a company created during the dotcom euphoria that built its path on customer centricity, innovation and long-term thinking. Amazon illustrates the power of harnessing digital technologies to be a company with almost everything to almost everyone, challenging everything we believe as true and making the impossible possible.

The fourth part is destined to the discussion, linking the existing literature with the findings of the case study. Thus, it will test if the current strategic assumptions are still held true or if they need to suffer some changes to adapt to the new reality – the digital economy and digital platforms.

Finally, the fifth part presents the main conclusions of this research as well as the limitations found during its development and the possible future research that can be done on this topic.



# Chapter 1

## Literature Review

### 1. Competitive Advantage in the Traditional Research

Over more than 40 years, strategic management research has been focused on the debate between the industrial organisation (IO) economic and the resource-based view (RbV) of strategy (Sampller, 1998) to understand the sources of sustained competitive advantage.

On one hand, according to the IO economic perspective, industry structure analysis is the main driver of profitability (M. E. Porter, 1985; Michael E. Porter, 1980a, 1980b; Michael E. Porter & Caves, 1977). On the other hand, following the RbV perspective, the internal resources of the firm are the primary determinant of profitability and competitive advantage (Barney, 1991; Peteraf, 1993; Prahalad & Hamel, 1990; Wernerfelt, 1984).

Both perspectives focus on identifying the sources of competitive advantage and a suitable strategy to achieve it. However, the IO theory adopts an “outside-in” approach, which means that strategy is based on the relation between the firm and its environment. The RbV theory assumes an “inside-out” approach: the resources that the firm possesses are more important than avoiding the challenges imposed by the different forces in the industry (Wang and Ahmed, 2007).

The IO perspective was popularised by Porter mainly with his Five Forces framework (Michael E. Porter, 1980a), in which competitive strategy is based on the understanding of the industry structure. Whereas the RbV was popularised by Barney’s (1991) work, which emphasises resources and capabilities as the origin of competitive advantage.

Therefore, Porter defines competitive advantage as the *“value a firm is able to create for its buyers that exceeds the firm’s costs of creating it”* (1985, p. 3). For this author, sustainable competitive advantage can be achieved through three generic strategies: cost leadership, differentiation or focus – cost focus and differentiation focus (M. E. Porter, 1985).

However, according to Barney (1991), a sustained competitive advantage occurs when current or potential competitors of a firm are not implementing the same strategy and when they are incapable of reaping off the same benefits of that strategy. Moreover, to hold a sustained competitive advantage, the internal resources must be valuable, rare and difficult for competitors to imitate.

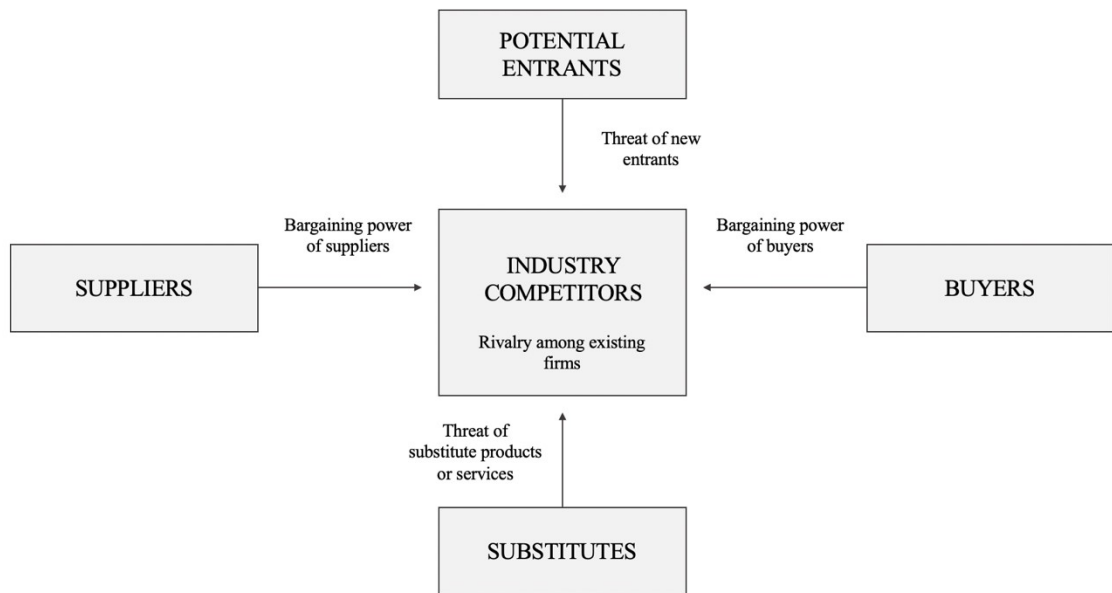
## 1.1. Porter

According to Porter (2001), the two fundamental drivers of profitability are industry structure and sustainable competitive advantage, which are considered universal as they transcend any type of business or technology.

### 1.1.1. Industry Structure

The structural attractiveness of an industry is determined by five competitive forces: threat of entry, threat of substitutes, bargaining power of buyers, bargaining power of suppliers and rivalry among existing competitors (**Figure 1**).

It is important to analyse all of the five forces to have an overview of their impact and influence in industry profitability, avoiding threats and exploiting game-changing trends (Michael E. Porter, 2008).



**Figure 1.** Forces driving industry competition

Source: Porter, M. E., "Competitive Strategy: Techniques for Analyzing Industries and Competitors", 1980

To analyse the industry structure, it is crucial to define the industry under analysis. In this sense, the boundaries of an industry comprise two main dimensions: the scope of products or services and geographic scope. Firstly, products are best treated as being part of the same industry if industry structure for two products is very similar or the same (if they have the same buyers, suppliers, entry barriers, etc). Secondly, the five forces can be analysed from a global perspective based on the assumption that competition is global if the industry structure is similar in every country (Michael E. Porter, 2008).

Given that the differences between the five forces in terms of products or services and geographic scope is a matter of degree, the definition of an industry is often considered based on judgement. For this reason, as a good practice, industries can be considered different when there are significant differences in one force or when there is more than one different force (Michael E. Porter, 2008). In this way, the external environment is comprised of separated

industries with clearly defined industry boundaries (Koch & Windsperger, 2017a).

To better understand this framework the five forces will be briefly described and analysed.

### **1. Intensity of rivalry among existing competitors**

The extent to which rivalry can limit an industry's profitability depends on the intensity with which companies compete and on the basis on which they compete (Michael E. Porter, 2008). Therefore, the intensity of rivalry is higher when competitors are numerous or similar in size and power, when industry growth is slow or when exit barriers are high. Moreover, rivalry is particularly negative to profitability if it is based only on price since it transfers industry profits directly to customers. Competing on different dimensions than price, such as product features or brand image, is less likely to undermine profitability because it improves customer value, being able to support higher prices (Michael E. Porter, 2008).

### **2. Threat of entry**

The threat of entry in an industry depends on the height of entry barriers and the reaction that the newcomer can expect from incumbents.

Entry barriers are advantages that existing competitors have compared to new entrants (Michael E. Porter, 2008). Examples of entry barriers are economies of scale, product differentiation, switching costs and capital requirements.

The threat of entry is low if barriers are high and/or the new entrant can expect sharp retaliation from established competitors (Michael E. Porter, 1980a).

### **3. Threat of substitutes**

According to Porter (2008, p. 31), a substitute “*performs the same or a similar function as an industry’s product by a different means*”. Although every firm in an industry is competing with other industries that produce substitutes, industry profitability is limited since substitutes place a ceiling on the prices that firms in an industry can charge (Michael E. Porter, 1980a). Therefore, the threat of substitutes is high if the price-performance alternative provided by substitutes is more attractive and/or buyers have low switching costs to the substitute products or services (Michael E. Porter, 2008).

### **4. Bargaining power of buyers**

Buyers compete with the industry and capture more value by forcing down prices, demanding higher quality or more services (which increases costs) and by setting competitors against each other, all in detriment of industry profitability (Michael E. Porter, 1980a).

Buyers have high bargaining power if they are small in size, have low switching costs, are price sensitive, can integrate backwards and produce the industry’s product themselves and/or products are standardised or undifferentiated (Michael E. Porter, 2008).

### **5. Bargaining power of suppliers**

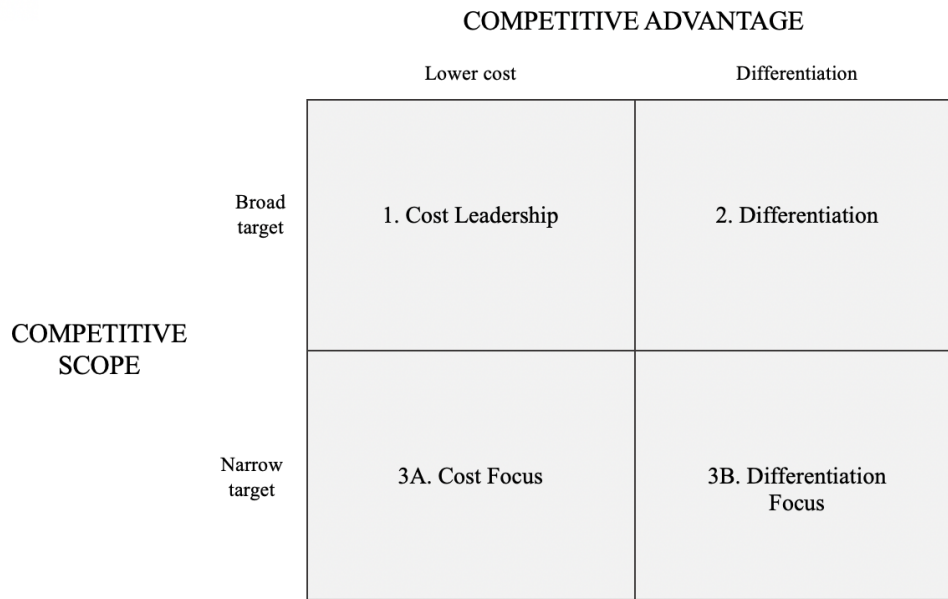
Suppliers can have high bargaining power in an industry by charging higher prices, reducing the quality of their products and services and/or shifting costs to firms in the industry (Michael E. Porter, 1980a). Thus, suppliers can be powerful and squeeze profitability in an industry if there are few and concentrated companies, they offer differentiated products, there are switching

costs for industry participants and/or there are no substitutes for what the supplier offers (Michael E. Porter, 2008).

In light of this framework, the main strategy is to build a moat around the business to protect it against competitors by controlling these five forces. When a company builds entry barriers it will be able to keep competitors away and avoid new entrants with substitute products in its industry. Furthermore, a company can keep its costs low and prices high when it weakens the bargaining power of suppliers and customers (Parker et al., 2016; Michael E. Porter, 1980b).

### 1.1.2. Sustainable Competitive Advantage

The positioning of a company within an industry determines if its profitability is above or below the industry average (M. E. Porter, 1985). To be more profitable than the average performer, a company needs to achieve a sustainable competitive advantage (Michael E. Porter, 2001). Hence, sustainable competitive advantage can be achieved through three generic strategies (Figure 2): cost leadership, by offering lower prices than competitors for similar benefits; differentiation, by charging a higher price to provide unique benefits; and focus – cost focus and differentiation focus – by serving a segment in the industry (limited geographic market, narrow range of products or a certain kind of customer) more efficiently than broadly-targeted competitors (M. E. Porter, 1985).



**Figure 2.** Generic Strategies

Source: Porter, M. E., "Competitive Advantage: Creating and Sustaining Superior Performance", 1985

This framework highlights that *"competitive advantage is at the heart of any strategy"* (M. E. Porter, 1985, p. 12), requiring a company to make a choice about the competitive advantage it seeks to achieve and the scope of the targeted segment.

From a traditional perspective, cost leadership and differentiation seem incompatible. On one hand, cost leadership means offering standardised products with few distinctive features to keep costs decreasing. On the other hand, differentiation means offering unique benefits to customers, which generally increases costs (Kim, Nam, & Stimpert, 2004).

Therefore, a company must choose one generic strategy or it will become "stuck in the middle", since combining generic strategies will result in poor performance (M. E. Porter, 1985; Michael E. Porter, 1980a).

However, some authors pointed out several problems associated with strategic purity (Miller, 1992; Pertusa-Ortega, Molina-Azorín, & Claver-Cortés, 2009; Salavou, 2015), namely:

- Companies that focus in one generic strategy may be less flexible and adaptable to respond to market changes and can narrow its vision by trying to pursue a “recipe for success”;
- Strategic specialisation can be more easily imitated by competitors than mixed strategies, which are usually more complex;
- Companies that follow pure strategies may focus on a single strength and ignore the changes in customers’ needs and tastes.

This fuelled a line of thinking that argues that generic strategies are not mutually exclusive and may be compatible approaches to achieve superior performance, resulting in hybrid strategies (Salavou, 2015).

Contrary to what was traditionally thought in strategic management, hybrid strategies are different from what Porter considered “stuck in the middle”. While “stuck in the middle” refers to a firm’s unwillingness to make choices about how to compete (Pertusa-Ortega et al., 2009), hybrid strategies emphasise more than one generic strategy (Salavou, 2015).

Hence, by combining several elements of cost leadership and differentiation, companies may yield numerous sources of advantage over competitors (Salavou, 2015).

## 1.2. Resource-based View

The resource-based view complements environmental models of competitive advantage by focusing on a firm’s internal resources, while Porter’s frameworks emphasise external industry structures and markets (Andersen & Wong, 2013; Eisenhardt & Martin, 2000). These environmental models assume that the

strategic resources controlled and the strategies followed by firms within an industry are similar, and that resource heterogeneity inside an industry will be temporary because resources are highly mobile (Barney, 1991).

However, the RbV provides two different assumptions in the analysis of competitive advantage. First, it assumes that firms can be heterogeneous regarding the resources they control within an industry. Second, heterogeneity can be long-lived since this model assumes that resources may not be completely mobile across firms (Barney, 1991). Therefore, the RbV focuses on the idiosyncratic and costly to imitate resources controlled by the firm, which exploitation may lead to a competitive advantage (Barney, 2014).

According to Barney (1991), a firm has a sustained competitive advantage when its current or potential competitors are not implementing the same strategy and when they are incapable of reaping off the same benefits of that strategy. To have the potential to hold a sustained competitive advantage, a firm resource must have four attributes, following the VRIO framework: (1) be valuable, in the sense that must enable a firm to exploit opportunities and neutralise threats in the environment; (2) be rare among current and potential competitors of the firm; (3) be inimitable and non-substitutable, if firms that do not possess these resources cannot obtain them and if there are not equivalent substitutes for the resource; and (4) organisation, which means that the firm must be organised to exploit its resources and capabilities (Barney, 1991, 2014).

The RbV and the VRIO framework (Figure 3) can be used to understand whether firms will achieve competitive advantages, for how long they will sustain and what are the sources of these competitive advantages (Barney, 2014).

Is a resource or capability...

Valuable?	Rare?	Costly to imitate?	Exploited by organisation?	Competitive implications
No	—	—	No	Competitive disadvantage
Yes	No	—	—	Competitive parity
Yes	Yes	No	—	Temporary competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

**Figure 3.** VRIO Framework

Source: Barney, J., "Gaining and Sustaining Competitive Advantage", 2014

Thus, firm performance is much more than industry structure and strategic positioning, it is also about firm-specific resources that are scarce and that competitors find hard to imitate (Andersen & Wong, 2013).

However, both Porter's frameworks – Five Forces and generic strategies – and the RbV are entrenched in a conception of an environment that is essentially static and stable (D'Aveni et al., 2010), not taking into account the wider implications of the digital economy and, consequently, of digital platforms.

## 2. The Digital Economy

The recent developments in information and communication technologies (ICT) and the internet have created a new economy – the digital economy – which changed the nature of competition among companies and generated new ways to create, deliver and capture value (Andersen & Wong, 2013).

Most discussions portray ICT as an opportunity to improve efficiency and optimise production processes. However, the digital economy poses a major

paradigm shift as it challenges environmental conceptions, established business models and the sources of competitive advantage (Koch & Windsperger, 2017a).

According to Andersen and Wong (2013, p. 11), the digital economy is characterised *“by high connectivity and a wide reach, which enables people, products and services from different and multiple geographies to be connected quickly and almost effortlessly”*. Moreover, it allows better decision-making through big data processing, real-time customisation, the extension of a firm’s product or service range and the capability to form new partnerships with suppliers, competitors and customers (Andersen & Wong, 2013).

Therefore, several authors argue that *“we are now standing on the threshold of a new age – an age of revolution”*, where *“in the twenty-first century, change is discontinuous, abrupt, seditious”* (Gary Hamel, 2000, p. 5) and *“constant change has become the norm”* (Brown & Eisenhardt, 1998, p. 3). This differs dramatically from the old industrial economy *“based on steel, automobiles and roads to a new economy built on silicon, computers and networks”* (Tapscott, 1997, p. 8).

In the industrial era, companies achieved market power through increased efficiency, control of high fixed cost resources and by establishing competitive prices to extend the customer base. Therefore, the main strategy during this period was to build a moat around the business to protect it against competitors (Alstyn & Parker, 2017). This moat could be built through two approaches: a firm could position itself on an industry with high entry barriers and then differentiate its offer to attract customers; or it could focus on assets that are rare, valuable and difficult to imitate by competitors (Birkinshaw, 2019).

However, since the beginning of the 21<sup>st</sup> century, the demand side – also designated by network effects – has become increasingly important, turning the traditional logic of success inside out. This means that, prior to the digital economy, activities that create value used to happen inside the company, but today they must also happen outside the firm (Alstyn & Parker, 2017).

This change occurred because information technology slashed transaction costs – costs of searching, contracting, collaborating and executing transactions with outside partners – which decreased the need to own physical infrastructure and assets, and enabled firms to set a context for innovation to co-create their products or services with third parties (Tapscott, 2014). Thus, in the digital economy, companies can no longer compete solely on the basis of better efficiency and access to traditional factors of production, such as capital, raw materials, labour (Andersen & Wong, 2013). Instead, the network between producers and consumers is the main asset of a company (Alstytne & Parker, 2017).

Therefore, the main contrast between the two economies is that the *“old industrial economy was driven by economies of scale; the new information economy is driven by the economics of networks”* (Shapiro & Varian, 1999, p. 173).

## 2.1. Digital Platforms

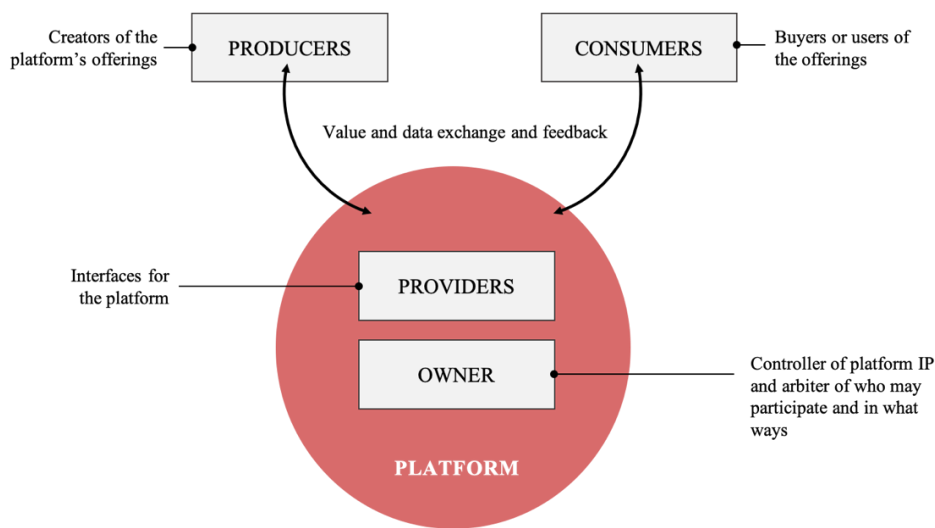
The digital economy allowed the emergence and growth of platform businesses by significantly reducing the need to own physical assets and infrastructure, enhancing network effects and extending the ability to capture, analyse and exchange great amounts of data (Alstytne, Parker, & Choudary, 2016).

A platform can be described as a *“a new business model that uses technology to connect people, organisations, and resources in an interactive ecosystem in which amazing amounts of value can be created and exchanged”* (Parker et al., 2016, p. 6).

In this sense, platforms are a simple but revolutionary concept that differ from traditional “pipeline” businesses that have dominated for decades. While pipeline businesses create value by controlling a linear set of activities with producers at one end and consumers at the other, platform businesses provide

an open and participative way to create value by facilitating interactions between producers and consumers outside the company (Parker et al., 2016).

Although every platform operates in different ways, creates different kinds of value and attracts different types of customers, all platforms share a similar structure comprising four main players (Figure 4): platform owners control their intellectual property and governance (who can participate and in which ways), providers are the platform’s interface with users (e.g. mobile devices are providers on Android), producers create offerings (e.g. apps on Android) and consumers use those offerings (Alstytne & Parker, 2017). Accordingly, it is crucial for platforms to understand the relationships within and outside the ecosystem, since these players may swap rapidly from one role to another. For example, customers can use Uber today and drive for the company tomorrow (Alstytne et al., 2016).



**Figure 4.** Players in a platform ecosystem

Source: Alstytne, M. W. Van, Parker, G. G. and Choudary, S. P. (2016) "Pipelines, Platforms, and the New Rules of Strategy"



following these platform strategies simultaneously, a company is able to combine the best of both worlds: on one hand, transaction platforms that integrate innovation platforms to access and promote third-party innovation; on the other hand, innovation platforms combined with transaction platforms enable the company to monetise its innovations and content by creating a distribution infrastructure (Cusumano et al., 2019). Therefore, it comes with no surprise that the most valuable companies in the world are all hybrid platforms: Apple, Google, Microsoft, Amazon and Facebook (Forbes, 2019).

### 3. Competitive Advantage in the Digital Age

As previously mentioned, while the engine of the industrial age was supply-side economies of scale, in which market power was achieved through increased efficiency, control of resources and avoidance of challenges from the five competitive forces by building a moat around the business to protect it from competition (Alstynne et al., 2016); the driving force of value creation and competitive advantage in today's platform and digital world are network effects (Parker et al., 2016).

Network effects can be same side/direct, when the benefit of user participation in a platform depends on the number of other users with whom they can interact; and cross-side/indirect, when the benefit of user participation depends on the number of users on the opposite side of the platform (McIntyre & Srinivasan, 2017).

As a platform attracts a growing number of users (direct network effects) and presents a variety of complements (indirect network effects), it becomes increasingly valuable, creating a virtuous feedback loop (McIntyre & Srinivasan, 2017).

However, the five forces framework does not take into account network effects and the value created by them. It regards external forces as “depletive”, as extracting value from the firm, and so there is the need to build barriers against them. But in demand-side economies, external forces can be “accretive”, they can add value to the platform. For instance, the power of suppliers or buyers which are seen as a threat in supply-side economies, may be seen as an asset on platforms (Alstyne et al., 2016).

Although Porter recognises that the internet is a tremendously important new technology, he considers dangerous to assume that “*the internet changes everything, rendering all the old rules about companies and competition obsolete*” (Michael E. Porter, 2001, p. 63). Instead, he argues that the internet is an enabling technology, a tool for implementing strategy (Michael E. Porter, 2001) and not a threat to the traditional ways of competing, failing to see the revolutionary nature of the ICT (Ticoli, Shuman, & Finken, 2001).

However, the digital economy is dissolving traditional industry boundaries as several industries are converging or overlapping, which questions the value of traditional industry structure analysis in underdefined and unstructured industries (G. Hamel & Prahalad, 1994).

As we are moving towards a world of fluid industry boundaries (Rogers, 2016), walls fall and competition comes from everywhere, whether from traditional or different industries that offer competing value to the same customers (Tapscott, 2014).

Another problem found in the five forces framework is that competition and collaboration are seen as opposites (Rogers, 2016). Yet, in the digital age, traditional industry boundaries are blurring as well as the distinction between competitors and partners (Rogers, 2016).

Thus, there is a shift from competition within industries and between similar companies that aim to surpass each other, to competition across different

industries and between partners that rely on each other to be successful. This gives place to the concept of coopetition, where companies compete in some areas but also act as partners in others (Rogers, 2016).

In this way, rather than a zero-sum game – for one side to win, the other has to lose –, competition is increasingly about cooperating with rivals and competing with partners, demanding a constant mix between competition and cooperation (Rogers, 2016).

In the same line, the digital economy creates a paradox of resource ownership by challenging the idea supported by the RbV that resources and capabilities exist exclusively within the boundaries of the firm. As data, know-how and information are increasingly mobile and shared among firms, it becomes more about sharing than owning. Consequently, to achieve a competitive advantage, it is fundamental for firms to look beyond organisational boundaries and explore opportunities for value co-creation and co-learning with other firms (Andersen & Wong, 2013).

Thus, platforms can build ecosystems comprised by different entities that co-create value, transcending traditional industry boundaries and promoting open and flexible collaboration and competition (McIntyre & Srinivasan, 2017; Senyo, Liu, & Effah, 2019).

Noticing the parallels between the biology and strategy fields, James Moore (1993, p. 76) imported the concept of ecosystem to explain how businesses behave in an increasingly dynamic and interconnected world, writing: *“In a business ecosystem, companies co-evolve capabilities around a new innovation: they work cooperatively and competitively to support new products, satisfy customer needs, and eventually incorporate the next round of innovations”*.

In this sense, business ecosystems can be defined as *“dynamic and co-evolving communities of diverse actors who create and capture new value through both collaboration and competition”* (Kelly, 2015, p. 4).

Indeed, a company should not be perceived as a member of a single industry but as a part of a business ecosystem that crosses different industries (Moore, 1993) as it allows companies to create value that alone would not been able to create (Adner, 2006).

Ecosystems provide a new mindset that changes profoundly the business landscape, witnessing a shift *“from a world of vertical integration, internal capabilities, internal R&D, internal projects, and internal infrastructure (...) to a world of mutual dependencies, distributed innovation, technology integration, trading collaboration, and on-demand capabilities”* (Iansiti & Levien, 2004, pp. 221–222).

Hence, a successful platform protects its competitive advantage by attracting users and third-party complementors to enter in the platform, innovate on top of it and inhibiting them to do multi-homing, i.e. switching to competing platforms (Cusumano et al., 2019).

Accordingly, in the world of platforms, the internet no longer acts only as an enabler, it also acts as a creation infrastructure and a coordination mechanism. Consequently, platforms are increasing the threat of substitutes by leveraging a new capability of creating entirely new business models (Parker et al., 2016).

Business model innovation (BMI) can be defined as the *“discovery of a fundamentally different business model in an existing business”* (Markides, 2006, p. 20). This does not mean the discovery of new products or services; it simply redefines what is a product or service and how it is provided to the customer. Therefore, an innovative business model can allow a company to either create a new market or to exploit new opportunities in existing markets (Amit & Zott, 2012).

If companies fail to reinvent their business models, their customer value propositions or the dynamics of their industries in their favour, they can quickly become obsolete (Crawford, 2014).

Thus, BMI is becoming increasingly relevant as it represents an often-underutilised source of future value. Since it is harder for competitors to imitate an entire novel activity system than a product or process, BMI can translate into a competitive advantage (Amit & Zott, 2012).

Furthermore, the digital economy has shifted a tremendous power towards buyers by providing easier access to information and greater choice, which Porter (2001) initially considered negative for the industry structure as he argued that the purpose of strategy is to defeat rivals rather than add value to the customer.

Steve Denning, however, highlights Porter's assumption that the purpose of strategy is to avoid competition, protecting the business from rivals and finding a *"safe haven for businesses from the destructive forces of competition"* as a weakness of the framework (Denning, 2012). Instead, he supports Peter Drucker view that the only purpose of a business is to create a customer (Drucker, 1973).

In today's turbulent environment, if a company wants to survive, rather than protecting itself against competitors through structural barriers, it must aim to add value to the dominant force: customers, by finding new ways to satisfy them and by continuously innovating (Denning, 2012; Ticoli et al., 2001).

In this sense, Porter (2014, p. 72) recognised later that *"knowing how customers actually use the products enhances a company's ability to segment customers, customise products, set prices to better capture value, and extend value-added services"*. Nevertheless, as customers become more familiarised with new technologies, their switching costs will become lower as their loyalty to initial suppliers will decrease (Michael E. Porter, 2001).

Taking all these factors into consideration, it is possible to conclude that the digital economy and digital platforms are undeniably changing the competitive landscape, from the way businesses compete to the way they operate and

collaborate (Teece, 2012). But what changed regarding the sustainability of competitive advantage?

### 3.1. Sustainable Competitive Advantage

The emergence of ICT intensified the need for hybrid strategies instead of following Porter's advice of pursuing only one generic strategy. Although the digital economy opened new opportunities to achieve a distinctive strategic positioning, it made more difficult for companies to sustain operational advantages, since rivals can effortlessly copy the best practices and catch up (Michael E. Porter & Heppelmann, 2014).

Moreover, easy access to information, price comparisons and low customer switching costs suggest that companies following a cost leadership strategy could become trapped on a vicious cycle of price-cutting, harming industry profitability and resulting in destructive competition (Kim et al., 2004).

Therefore, having lower costs is infrequently a source of sustainable competitive advantage. In this sense, companies need to focus on having a unique strategic positioning (Michael E. Porter & Heppelmann, 2014). To be successful, a differentiation strategy must be based on factors that are difficult for competitors to imitate, such as reputation, technology and customer service. With the emergence of new ICT and the internet, new elements become increasingly relevant, such as convenience, customisation, speed of delivery and security of transactions, which can be fundamental to lock-in customers and increase their loyalty (Kim et al., 2004).

Furthermore, the internet allows companies to target simultaneously broad and narrow segments, which makes focus strategies more of a "*competitive imperative than a strategic option*" (Kim et al., 2004, p. 577).

Hence, in the digital economy companies should shift from a pure cost leadership strategy towards a differentiation or hybrid strategies, that combine

the best features of both generic strategies to achieve superior performance (Kim et al., 2004).

Traditionally, change is considered a relatively static process in which a company aims to create fit with its environment. However, contemporary firms operate and compete in dynamic contexts, which call for more flexibility and the ability to combine more than one generic strategy to deal with environmental change (Kim & Mc Intosh, 1999).

In the same way, firm-specific resources may not be enough to sustain a competitive advantage (Andersen & Wong, 2013). Yet, companies end up falling in the paradox of success: *“once companies achieve success, their natural tendency is to continue to exploit the strategies that have worked in the past”* (Audia, Locke, & Smith, 2000, p. 849). This becomes self-destructive in high-velocity environments, as companies may lose the ability to recognise when it is time to leave previously effective resources after a period of positive performances (D’Aveni et al., 2010).

While static unique resources could lead to sustained competitive advantage in static environments; in dynamic environments, dynamic capabilities are a necessity to survive (D’Aveni et al., 2010; Kraaijenbrink, Spender, & Groen, 2010). Hence, to complement the static nature of the RbV, the dynamic capabilities approach emerged (Katkalo, Pitelis, & Teece, 2010).

Dynamic capabilities are defined as a *“firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments”* (Teece et al., 1997, p. 516). Unlike previous static models, dynamic capabilities recognise that markets and technologies evolve and, consequently, firms need to adjust by reallocating assets and learning new skills to sense opportunities and to be able to seize them (Harreld, O’Reilly, & Tushman, 2007). Therefore, sustained competitive advantage lies in the

resource configurations made by managers through dynamic capabilities and not in the resources themselves (Eisenhardt & Martin, 2000).

However, in dynamic markets where industry structure is blurring, sustained competitive advantage is infrequently achieved. Therefore, instead of exploiting sustainable competitive advantages, firms must exploit temporary competitive advantages (Eisenhardt & Martin, 2000; McGrath, 2013a).

This is supported by the “Red Queen effect”, in which all companies keep changing and adapting in a never-ending race simply to survive within their competitive landscapes (Kauffman, 1995). In this way, long-term superior performance is achieved through continuously developing and adapting new sources of temporary advantage with the ultimate goal of being the fastest runner in the Red Queen race (Beinhocker, 1997). Thus, besides being strong competitors, companies must be smart evolvers (Beinhocker, 1997). Rather than changing when it becomes a matter of life or death, companies need to adapt and divest from declining sources of advantage by focusing on grasping emerging opportunities (Rogers, 2016).

Overall, while RbV focuses on leveraging firm-specific resources to achieve a sustained competitive advantage, strategy in dynamic markets is based on several temporary and unpredictable advantages, where the imperative is *“when, where and how often to change”* (Eisenhardt & Martin, 2000, p. 1118).

In this highly dynamic competitive environment, within-industry competition is no longer the most significant competitive threat as future competitors are likely to arise from different industries or with different business models even within the same industry (McGrath, 2013a). Similarly, the digital economy questions the value and inimitability of resources because they can be quickly copied, substituted or made obsolete (D’Aveni et al., 2010). Without clear industry boundaries and stable industry structures, competitive

advantage may no longer be sustainable (Koch & Windsperger, 2017a). Instead, competitive advantage may arise from building a platform with network effects and an ecosystem around it, with the ultimate goal of creating value to the customer and continuously innovating and adapting to the fast-moving environment through several temporary advantages (Gupta, 2018).

Thus, firms need to abandon the assumption that stability is the norm (McGrath, 2013b). Instead, "*change is not the dangerous thing – stability is*" (Leavy, 2013, p. 13).

Summing up, the digital economy and digital platforms challenge the traditional approaches that explain sustainable competitive advantage, such as industry structure, generic strategies and RbV (Koch & Windsperger, 2017a). These collapse when confronted with fast and unpredictably changing environments because they overemphasise the degree to which it is possible to predict and choose attractive industries, unique strategic positions or set of resources (Brown & Eisenhardt, 1998). Although these approaches are insightful for setting a broad strategic direction for slow and stable markets, they are not enough in industries with high-velocity change (Brown & Eisenhardt, 1998).



# Chapter 2

## Research Methods

### 2.1 Research Approach

In this chapter, the research methods will be presented, building on the work done on my research proposal (Rodrigues, 2020).

The research questions of this dissertation are how the digital economy changed competitive advantage and how is competitive advantage achieved in the age of digital platforms, and to answer them, a qualitative research will be conducted.

This type of research usually emphasizes words instead of quantification in data collection and analysis (Bryman & Bell, 2011). Furthermore, through qualitative data, it is possible to follow a chronological order and to understand which events led to certain consequences, which enables the development of explanations (Miles & Huberman, 1994). Therefore, qualitative data *“helps researchers to get beyond initial conceptions and to generate or revise conceptual frameworks”* (Miles & Huberman, 1994, p. 1). This is possible due to the fact that rather than studying artificial phenomena like experiments do, qualitative research studies real phenomena (Bryman & Bell, 2011), being the most suitable research strategy to study a subject in-depth (Myers, 2013) and to test theories (Bryman & Bell, 2011).

Given that the aim of this research is to understand how traditional strategic assumptions have changed and test if they are still true in the light of the digital economy and digital platforms along with the explanation where competitive advantage lies in today's world, this seems the most suitable approach.

Taking into account the nature of the research questions, the purpose of the research is explanatory and descriptive, with the primary motivation of describing, understanding, testing and explaining a phenomena (Ethridge, 2004; Myers, 2013).

Every research is based on a set of philosophical assumptions about the development of knowledge (Saunders, Lewis, & Thornhill, 2013). In contrast to positivism that measures social phenomena using quantitative methods, interpretivism aims to explore the complexity of social phenomena using qualitative methods, which are based on the interpretation and analysis of qualitative data (Collis, 2013). Thus, this research follows an interpretivist philosophy as *“interpretivists study meanings to create new, richer understandings of organisational realities”* (Saunders et al., 2013, p. 140).

Given that business settings are often complex and unique, the interpretivist philosophy is the most appropriate since it tends to focus on understanding the context (Collis, 2013; Myers, 2013).

In this sense, the approach to theory development will be deductive, which is a process to test theories, starting with established theories, such as Porter’s Five Forces, generic strategies and RbV, to verify if they still apply in the age of digital platforms (Hyde, 2000).

Therefore, to answer the research questions previously presented, a case study will be conducted. According to Yin (2014, p. 55), a case study *“investigates a contemporary phenomenon (the “case”) in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident”,* which *“allows to focus on a “case” and retain a holistic and real-world perspective”* (Yin, 2014, p. 60).

One great advantage of case studies is the fact that they allow the testing of theories within the context of *“messy real-life situations”,* which are not so straightforward as theories typically portray (Myers, 2013, p. 128). Moreover,

by telling a real story, especially of a well-known company to which everyone is familiar with its products and services, makes the presentation and explanation of the case study easier to follow and understand by its readers (Myers, 2013). However, doing case studies also has disadvantages, such as the fact that the researcher has no control over the situation, which can be especially dangerous in the business field characterised by fast-moving environments (Myers, 2013).

Although case studies are mostly used to build new theory, they can be also used to test theory (Myers, 2013).

In this way, to write the case study, the researcher needs to be familiarised with the topic and aware of the latest research about it (Myers, 2013). Given that there is a vast body of knowledge on competitive advantage, the case study will be used to test the selected theory (Porter and Barney's frameworks) in the light of a new context – the digital economy and digital platforms – in which research is still emerging, to develop explanations about how the assumptions about competitive advantage have changed and where lies competitive advantage in today's world.

Thus, from the theory, it is possible to specify a set of strategic assumptions which are held as true. To determine if these assumptions are correct or if there are alternative explanations, a single and explanatory case study about Amazon.com, Inc. will be done.

The single case study can represent a meaningful contribution to the body of knowledge by challenging, confirming or even extending the theory (Yin, 2014). Rather than doing a multiple case study, the single case study was chosen because it can represent a critical test to the existing literature and theory on competitive advantage (Yin, 2014). Thus, even a single case study, if analysed with enough insight, can provide a theoretical explanation of a phenomenon (Hyde, 2000).

Although doing a single case study may be seen as a small sample that lacks validity, this thinking does not apply to case study research, which does not follow the sampling logic – generalising from a sample to a population. In case study research, it does not matter the number of cases, since if it is possible to generalise from a single experiment, it is also possible to generalise from a single case study (Myers, 2013; Yin, 2003).

Amazon.com was chosen as it represents the perfect example of a company created during the dotcom euphoria that experienced an exponential growth, not only in scale but also in scope, since its foundation in 1994, becoming the most valuable company in the world in 2019, above Apple, Microsoft and Google (Wells, Weinstock, Danskin, & Ellsworth, 2019). Amazon has its own unique way of doing things, pioneering from the way businesses work to customer behaviour, distinguishing it from its competitors. Hence, Amazon seemed the most suitable case to challenge existing theories about competitive advantage.

Therefore, the aim of this single case study is to question taken-for-granted assumptions about competitive advantage and, consequently, to suggest an alternative explanation in the face of the digital economy and digital platforms. Moreover, it intends to expand and generalise theories through analytical generalisation rather than to understand the frequency in which a phenomenon occurs – statistical generalisation (Yin, 2002).

## 2.2. Data Collection

Although case studies have the distinctive strength of dealing with a variety of evidence – interviews, observations, documents – in this research only documents will be the source of data. Therefore, this research will rely on

secondary data, which has been collected by other researchers and by the organisation during the course of its business (Bryman & Bell, 2011).

Secondary data will be collected from different sources, namely:

- e-resources: academic journal databases, Amazon's website and the internet
- Books, articles, conference papers, case studies and reports
- Organisational documents (from Amazon): annual reports, mission statement, letters to stakeholders, transcript of the CEO's speeches, press releases, interviews and public-relations material
- Coverage of business topics in newspapers and broadcast media

While a main disadvantage of just using secondary data is that this research will solely rely on public-domain data, using information that is publicly available; there are also several advantages.

Given that secondary data is already collected, it is possible to evaluate it before using it, rejecting unsuitable data and spending more time in the analysis and interpretation of data. Moreover, the internet makes available a great amount of data both in scale and scope that a single researcher would not be able to collect alone and in a short period of time. Finally, even though secondary data was collected with a different purpose than the one of this research, reanalysing data may lead to new and unseen discoveries (Saunders et al., 2013; E. Smith, 2011).

## 2.3. Data Analysis

One of the biggest challenges of analysing qualitative data is that there is *"no clear and universally accepted set of conventions for analysis corresponding to those observed with quantitative data"* (Robson, 2011, p. 466).

This is also a challenge regarding case studies, in which Yin (2014, p. 357) argues that *“analysing case study evidence is especially difficult because the techniques still have not been well defined”*. However, the author suggests that *“the best preparation for conducting case study analysis is to have a general analytic strategy”* (Yin, 2014, p. 380), with the objective of linking case study data with relevant concepts.

Therefore, this research will rely on theoretical propositions, aiming guide the research by pointing out inconsistencies in the existing literature about competitive advantage and to understand the impact of the digital economy and digital platforms on it. In this way, the analysis will be top-down, which means that the concepts used to analyse the data will emerge from the literature (Myers, 2013).

Furthermore, within any general strategy, Yin (2014) advises using an analytic technique. To analyse the case study, explanation building will be used, as it is designed to test a theoretical proposition (Saunders et al., 2013).

Amazon is a company with large public interest and, consequently, there is a great amount of secondary data available. To guarantee the quality of the secondary data used, the research will rely on company data, books written by industry experts or previous Amazon’s executives, business press articles, case studies and interviews with Amazon’s insiders (mainly the CEO, Jeff Bezos) available on YouTube. Additionally, during the case study, quotations are provided to illustrate the points made and to make the analysis more transparent (Collis, 2013). Table 1 provides a description of the secondary data and its use in the analysis.

The analysis of the secondary data followed a process. Firstly, the data was collected from the different sources already mentioned. Secondly, the data was read in detail several times while comments and observations were made, highlighting and summarising relevant parts manually. This was an iterative

and cyclical process, which helped to reduce the amount of data and allowed to come up with important insights about the subject.

Thirdly, a comparison between data from different sources was made, checking the veracity and reliability of data. Fourth, the data was aggregated taking into account the recurrent themes and concepts it addressed. For example, all the data related to business ecosystems was aggregated as well as the data about business model innovation, network effects and customer centricity.

Fifth, the data was organised in a chronological order to make it easier to understand and explain the reasons behind the evolution and growth of the company under analysis.

Finally, the data was interpreted and connections across the data were made.

**Table 1.** Description of the secondary data and its use in the analysis

Source	Details	Use in analysis
Company data: <ul style="list-style-type: none"> <li>• Annual Reports</li> <li>• Letters to Shareholders</li> <li>• Press releases</li> <li>• Website pages</li> </ul>	Gives information about the company's history, activities, achievements and plans for the future.	Build a timeline of key events and product/service launches. Gain an understanding of the reasons behind every investment and its expected outcome, information about the company's performance.
Books	Books written by industry experts and former executives with direct contact to the company and its CEO, giving important insight about the history and how the company works.	Provide an overview of the company, its business model and its principles. Give insights about the thinking behind every move made by the company.
Business press articles	Give information about company events, emerging business trends and the impact of the company's investments over time.	Give an overview of the several industries in which the company is present, opinions of third parties about the company's investments, knowledge about its competitors and forecasts of possible next moves.
Case studies	Offer a rich analysis of the company evolution and its history.	Build a timeline of key events and product/service launches.
Interviews with CEO Jeff Bezos	Provide a deeper understanding of the company, its first steps and the thinking behind its growth and success.	Help to understand the core principles and to fully grasp the essence of the company.



# Chapter 3

## The Case of Amazon.com

### 3.1. History of Amazon

Before creating Amazon.com, Inc., Jeff Bezos worked in a Wall Street firm called D. E. Shaw & Co., a quantitative hedge fund. In 1994, when the internet started revealing itself, David Shaw, the founder of the company, appointed Bezos to study the business opportunities that the internet could create (Charan & Yang, 2019).

Throughout this study, Bezos attention was caught by a surprising statistic that web activity was growing at 2 300% a year. *“Things just don’t grow that fast, it’s highly unusual”*, Bezos said. *“And that started me thinking, what kind of business plan might make sense in the context of that growth?”* (Academy of Achievement, 2011).

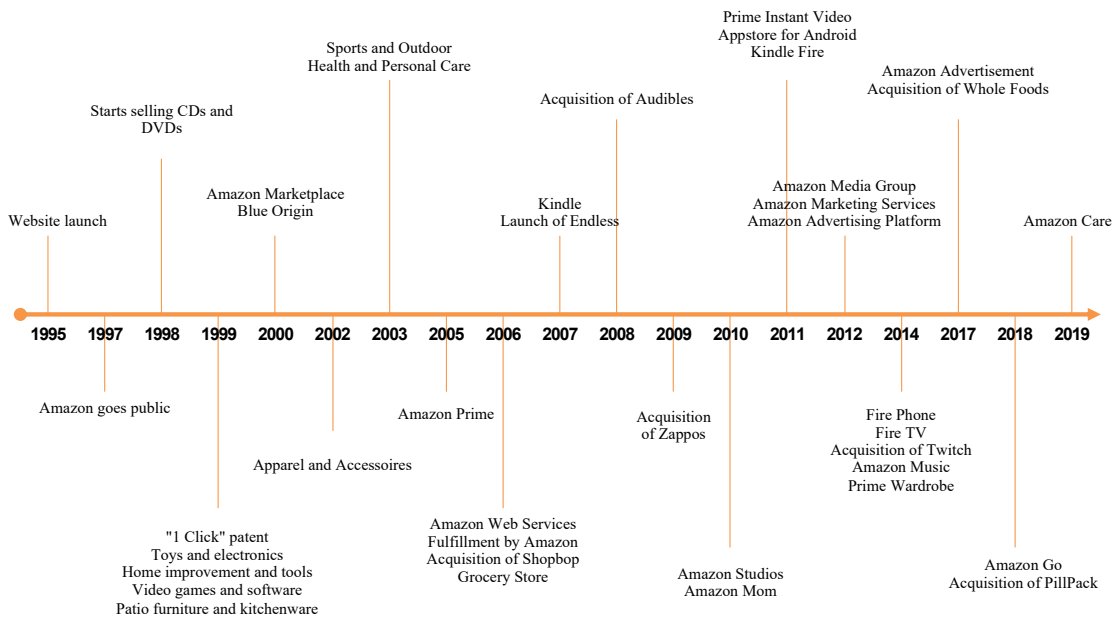
Having in mind that it was unrealistic to launch “the everything store” from the beginning, Bezos listed twenty product categories with potential to sell online, including apparel, music and office supplies (Stone, 2013). He then decided that the best starting point would be books for several reasons. Firstly, the market was big, books were highly standardised, and the logistics of shipping them was relatively simple. Secondly, at that time the book market was dominated by two main distributors: Barnes & Noble and Borders. Finally, the internet could provide unlimited selection, ultimate personalisation and unfiltered customer reviews, creating a whole new experience for customers (Charan & Yang, 2019).

Therefore, it comes with no surprise that the name Amazon captivated Bezos and spoke to its ambition as it *“is not only the largest river in the world. It’s many*

times larger than the next biggest river. It blows all other rivers away”, he said (Charan & Yang, 2019, p. 39).

Amazon’s website was launched in 1995 with the ultimate goal of offering “much more selection than was possible in a physical store (...) in a useful, easy-to-search, and easy-to-browse format in a store open 365 days a year, 24 hours a day” (Amazon.com, 1997, p. 3).

In 1997, Amazon went public at a price of \$18 per share, resulting in a valuation of the company at \$438 million (Wells et al., 2019). To fulfil Bezos’ dream of the “everything store”, Amazon started moving beyond books and enjoyed a dramatic growth of categories, geographies and acquisitions (Figure 6 – further explanation in Appendix 1).



**Figure 6.** Amazon expansion from 1995-2019

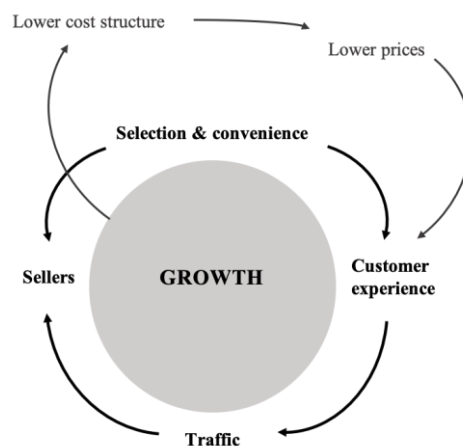
Source: Wells, J. R., Weinstock, B., Danskin, G., & Ellsworth, G. (2019). Amazon.com, 2019. HBS No. 9-716-402, 45.

Meanwhile, Bezos kept his focus on the “customer experience pillars”: low prices, vast selection, and fast, convenient delivery, which he firmly believed that would remain stable over time (Amazon.com, 2001, 2008).

To accomplish this, Amazon could not be constrained by traditional retail rules. Rather than being a mere online store, Amazon became a platform by launching the Marketplace in 2000, which allowed third-party sellers – mostly small- and medium-sized businesses – to sell their products alongside Amazon’s offerings. This may seem unwise to someone that views Amazon’s business model as an online store. Why would Amazon want to empower competitors with its advanced analytical and management skills and share its customer base?

However, if Amazon’s business model is regarded as a platform, third-party sellers no longer are competitors. Instead, they are valuable ecosystem partners that help the platform grow more than Amazon alone could (Charan & Yang, 2019).

By focusing on the “customer experience pillars” mentioned earlier, Bezos draw a virtuous cycle (Amazon.com, 2020b), later coined “Amazon flywheel” (Figure 7).



**Figure 7.** Amazon flywheel

Source: Amazon.com (2020). Available at: [https://www.amazon.jobs/en/landing\\_pages/about-amazon](https://www.amazon.jobs/en/landing_pages/about-amazon)

The core of the flywheel and the whole platform is customers. It all starts with the customer experience: a better customer experience will attract more customers and increase traffic. By allowing third-party sellers in the platform, there will be more sellers which will bring more selection, attract more customers and increase growth. In turn, this increased scale will decrease cost structure and result in lower prices. In this sense, greater selection, lower prices and improved convenience will enhance customer experience, increasing the traffic and growth of the platform (Inside Amazon Videos, 2018). This results in a self-reinforcing mechanism: by feeding any part of the flywheel, the loop is accelerated (Stone, 2013).

By following this logic, Amazon became the biggest online platform in the US (Figure 8) by 2018 with 45% share (Palumbo, 2019). Moreover, from 1999 to 2018, third-party sales grew from 3% to 58%, with a compound annual growth rate of 52% compared with 25% of first-party sales. Bezos joked, adding “*To put it bluntly: Third-party sellers are kicking our first party butt. Badly*” (Amazon.com, 2018a, p. 1).



**Figure 8.** Market share of online platforms in the US

Source: Palumbo, D. (2019) Amazon at 25: The story of a giant, BBC. Available at: <https://www.bbc.com/news/business-48884596>

This fast growth of third-party sales compared to Amazon's own first-party sales is due to the fact that Amazon invests heavily and offers them the best tools, such as inventory management, payments processing and shipment tracking (Amazon.com, 2018a).

However, none of this growth would be possible without Amazon Prime and Fulfillment by Amazon (FBA) programmes. Amazon Prime was launched in 2005, providing its members a two-day free delivery service for an annual fee of \$79 (Amazon.com, 2018a). Prime membership grew so quickly that by 2014 the fee increased to \$99 and today is \$119. By the end of 2018, a study made by the Consumer Intelligence Research Partners (CIRP) reported that prime members have reached 101 million in the US and that they spent on average \$1.400/year compared to \$600/year of non-member shoppers (Levin & Lowitz, 2019).

Throughout time, Prime extended its service to include video streaming with Instant Prime Video in 2011 and music streaming later with Amazon Music in 2014.

You may ask why it would make sense for Amazon to move in this direction, but for Bezos it was crystal clear: *"When we win a Golden Globe, it helps us sell more shoes"* (Dastin, 2018, para. 6). Given that customers pay an annual fee, they want to get as much value from the programme as possible, shopping across several categories. By having the flywheel spinning to help sell more shoes, Amazon has the advantage of being able to charge less for the premium content than its competitors (McAlone, 2016).

Thus, in 2018, Prime Instant Video surpassed Hulu, being only behind Netflix as the most popular video streaming service in the US (Park Associates, 2018); and in 2019 Amazon Music occupied the sixth place as the largest music streaming service in the US (Statista, 2019).

In 2006, Amazon launched FBA, in which the company stored, packed, shipped and provided customer service to third-party sellers' products with the

benefit of being eligible for Amazon Prime (Amazon.com, 2020c). In 2014, according to a survey, 71% of FBA members reported that their unit sales increased more than 20% after joining the programme (Amazon.com, 2014).

Amazon also started tapping into the advertisement business in 2012, creating Amazon Media Group (AMG), Amazon Marketing Services (AMS) and Amazon Advertising Platform (AAP), which were rebranded in 2018 to Amazon Advertisement (Amazon.com, 2018b). With this bold move, Amazon was entering an industry dominated by Google and Facebook. However, while Google knows a customer's intention to buy a product and Facebook knows their friends, Amazon knows what a customer has bought and is able to make accurate predictions of future purchases (Wohlsen, 2012).

This constitutes the biggest advantage of Amazon: its large customer base and its knowledge of customers' browsing and purchasing behaviours provides a rich data source to target customers with suitable ads (Gupta, 2018). Consequently, manufacturers shifted to Amazon and despite weak forecasts of less than \$3 billion ad sales in 2018, Amazon reached \$10 billion, which made it the third-largest ad business (Sloane, 2019).

But Amazon does not stop here as it aims to replace Google as the search engine for products. A 2020 study showed that 47% of US internet users (aged 13 and over) start and end their shopping on Amazon, compared with 24% that uses Google (Wilson, 2020).

In spite of being a platform, Amazon combines online and offline activity. After acquiring natural-foods retailer Whole Foods in 2017 for \$13.7 billion (Wells et al., 2019), Amazon expanded its empire to fresh grocery and physical stores.

Amazon wanted to enter in this business for years, but as everything it does, it had to be different. Once more, Amazon reinvented the customer experience, creating cashierless stores, in which customers enter, pick what they need and

just walk away (Charan & Yang, 2019). Thus, Amazon Go eliminates the worst part of grocery shopping experience: the lengthy and slow checkout lines (D. Smith, 2016).

Furthermore, in 2018 Amazon acquired PillPack for \$753 million, a company that delivers medications in pre-sorted dose packaging, coordinating prescription refills, ordering and shipping (Japsen, 2018; Wells et al., 2019). By doing this, Amazon entered a \$312 billion industry with an online component expected to reach \$107 billion by 2025 (Turea, 2020).

The fact that PillPack already had licenses to sell prescriptions in all US states allied with Amazon's vast customer base, logistics infrastructure and the ability of offering lower prices and unique customer experiences could transform the pharmaceutical business (Turea, 2020).

In this line, it also started Amazon Care in 2019, a pilot virtual health clinic for its Seattle employees, providing both virtual and in-person care (Amazon.care, 2020). Amazon is clearly experimenting with different opportunities in healthcare, which represents a \$3.5 billion industry (Farr, 2019).

This audacity to innovate and to enter in seemingly unrelated businesses has had for several years Wall Street and Silicon Valley *"rolling their eyes at the legendary Bezos attention disorder"*, adding: *"Earth to Jeff: You're a retailer"* (Reiss, 2008), which Bezos answered, *"We're very comfortable being misunderstood. We've had lots of practice"* (Hof, 2006).



**Figure 9.** Amazon's logo

Source: Amazon (2020). Available at: <https://www.aboutamazon.com/our-company/about-amazon>

During its lifetime, Amazon expanded its scope around its customers (Gupta, 2018), trying to provide them the best experience. Therefore, it is no coincidence that its logo has an arrow pointing from A to Z (Figure 9), being a company that has almost everything for almost everyone (Charan & Yang, 2019).

By expanding to different businesses, Amazon faces new and different competitors (several examples in Figure 10). Thus, in ecommerce, Amazon competes with eBay and Alibaba while in physical stores competes with Walmart and Target. Amazon competes with Netflix, Hulu, HBO and Disney in video streaming services and with Spotify and Apple Music in music streaming services. In cloud computing, its biggest rivals are IBM, Google, Oracle and Microsoft. In cloud computing, its biggest rivals are IBM, Google, Oracle and Microsoft (Gupta, 2018).



**Figure 10.** Amazon's businesses and its competitors

Source: Adapted from <https://finshots.in/infographic/amazon-is-at-war-with-everyone/>

## 3.2. Amazon Principles

No matter what Amazon did, does or will do, from Day 1 the company is guided by three core principles (Amazon.com, 2020a), besides the leadership principles (Appendix 2):

- (1) Customer obsession rather than competitor focus
- (2) Passion for invention
- (3) Long-term thinking

Customers are Amazon's most valuable asset, allowing it to successfully expand to different categories and attract more and more third-party sellers to the platform. Bezos explains this by saying that *"One thing I love about customers is that they are divinely discontent. Their expectations are never static"* (Amazon.com, 2017, p. 1). Consequently, they *"became the sources of continuous inspiration for Amazon's invention machine"* (Charan & Yang, 2019, p. 21).

Thus, Amazon defines itself as a customer obsessed company aspiring *"to be Earth's most customer-centric company"* (Amazon.com, 2020d). Bezos acknowledges that Amazon should not be afraid of competitors, but of customers, since they are responsible for transforming Amazon to what it is and to whom they are loyal until a better service is offered (Amazon.com, 1998). Amazon chooses to be customer-focused because *"If you're competitor-focused, you have to wait until there is a competitor doing something... Being customer-focused allows you to be more pioneering"* (Rossman, 2014, p. 23), which is more efficient in fast-changing environments (Kirby & Stewart, 2007).

Unlike traditional businesses, Amazon does not use technology mainly for cost reduction. Instead, it uses technology to dramatically change customer experience and to invent an experience that does not exist today on behalf of customers. To Amazon, the only way to be ahead of customers' growing

expectations is through constant innovation and relentless invention (Charan & Yang, 2019).

Amazon Web Services (AWS) is an example of this. As Bezos explained *“No one asked for AWS. No one. Turns out the world was in fact ready and hungry for an offering like AWS but didn’t know it. We had a hunch, followed our curiosity, took the necessary financial risks, and began building – reworking, experimenting, and iterating countless times as we proceeded”* (Amazon.com, 2018a, p. 2).

In 2018, AWS had millions of customers, from startups to large enterprises and from government entities to nonprofits (Amazon.com, 2018a). Therefore, in the fourth quarter of 2019, Amazon was the worldwide leader in the cloud market with 33% market share, accounting more than the combined market share of its three biggest competitors, namely Microsoft, Google and IBM (Statista, 2020).

Adding to AWS, Kindle, Alexa and Echo represent major breakthroughs in the history of Amazon. Cloud, hardware, AI or voice recognition were not skills that Amazon had in the beginning, but that continuously developed (Charan & Yang, 2019).

Hence, Amazon dared to learn new skills and to enter into new markets, even if that meant killing its own business. In 2004, when it launched Kindle, besides entering in a competitive and crowded market with no experience in hardware devices, Amazon’s first success was selling physical books online. By promoting a device that allowed users to download and read books, magazines and newspapers in a matter of seconds, Amazon was threatening its own business. Bezos knew that if Amazon did not dare to kill its own business, others would (Charan & Yang, 2019).

Finally, and as a part of this passion for innovation, Amazon dares to fail – and in a big way. According to Bezos, *“failure and invention are inseparable twins”* (Amazon.com, 2015, p. 1; Internet Association, 2017). Therefore, *“as a company*

*grows, everything needs to scale, including the size of your failed experiments. If the size of your failures isn't growing, you're not going to be inventing at a size that can actually move the needle"* (Amazon.com, 2018a, p. 3).

In 2014, Amazon released its first smartphone: the Fire Phone, which was considered a multibillion-dollar failure and by 2015 the company stopped selling it, costing more than \$100 million (Clifford, 2020). Nevertheless, while the Fire Phone was a failure, it propelled the development of Echo and Alexa. Thus, four months after the launch of the Fire Phone, Amazon released Echo and Alexa, a connected speaker with a virtual assistant that ended up being a major success. Since this first-generation Echo, more than 100 million Alexa-enabled devices have been bought by consumers (Amazon.com, 2018a). Moreover, in 2018, Amazon introduced new Alexa-enabled devices for the home and even for the car because as Tom Taylor<sup>1</sup> commented *"We want you to have access to Alexa everywhere – in your kitchen, in your living room, in your office, and now in your car or truck"* (Amazon.com, 2018c, p. 1).

As Bezos wrote in a shareholder letter *"We will work hard to make experiments good bets, but not all good bets will ultimately pay out"*. However, *"a single big winning bet can more than cover the cost of many losers"* (Amazon.com, 2018a, p. 3).

All Amazon's game-changing inventions have taken years to develop, being difficult, lengthy and uncertain. Yet, Amazon *"will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions"* (Amazon.com, 1997, p. 2). Given the very nature of Amazon's business model – a scale business with high fixed costs and low variable costs – long-term thinking is extremely important.

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<sup>1</sup> Senior Vice President, Amazon Alexa

Besides being true to these three principles, Bezos firmly believes that Amazon's *"approach remains the same, and it's still Day 1"* (Amazon.com, 2009, p. 2). This means that Amazon grows aggressively in scale and scope, but preserves the entrepreneurial spirit of a start-up, having the best of both worlds (Charan & Yang, 2019). For Bezos, *"Day 2 is stasis. Followed by irrelevance. Followed by excruciating, painful decline. Followed by death. And that is why it is always Day 1"* (Amazon.com, 2016, p. 1).

It is this interconnection and consistency among the three principles that distinguishes Amazon and allows it to create and enter several businesses at a global scale. As Bezos said (Stone, 2013, p. 27):

*"We are genuinely customer-centric, we are genuinely long-term oriented, and we genuinely like to invent. Most companies are not those things. They are focused on the competitor, rather than the customer. They want to work on things that will pay dividends in two or three years, and if they don't work in two or three years, they will move on to something else. And they prefer to be close-followers rather than inventors, because it's safer. So, if you want to capture the truth about Amazon, that is why we are different. Very few companies have all of those three elements."*

Amazon is in a constant state of metamorphosis, growing not only in size but also evolving from simple business models to far more extensive offerings. What started as an online bookstore has transformed itself into a platform, both first-party and third-party, combining online with offline and seeking to provide almost everything to almost everyone. Furthermore, through its logistics and cloud services, Amazon has become an infrastructure provider for all types of companies in the digital age (Charan & Yang, 2019). Amazon is walking from an *"everything store"* to an *"everything company"* (Shankar, 2019).

Amazon's sky is limitless and Bezos believes that it is still Day 1 and Amazon is just getting started (Lane, 2018).



# Chapter 4

## Discussion

This chapter will link the strategic management theories presented in the literature review with the case study regarding Amazon, with the ultimate aim of answering the research questions proposed in the beginning of this dissertation, namely:

- *“How did the digital economy change competitive advantage?”*
- *“How is competitive advantage achieved in the age of digital platforms?”*

Therefore, traditional strategic assumptions will be criticised and illustrated with Amazon’s example, explaining how competitive advantage has changed and where it lies in the age of digital platforms.

The most renowned framework for thinking about competition is Porter’s Five Forces, which takes the industry as the unit of analysis. However, this framework has some flaws in the light of the digital economy and digital platforms, raising some questions about its value in today’s world.

Porter’s world is made of clearly defined industries where firms compete with the purpose of avoiding competition by building a moat to protect their businesses. But is this still true in a world of digital platforms?

Amazon proves that it is not possible to clearly define the industry in which it is present. While one may say that Amazon is in the e-commerce industry, others may say it is in cloud computing, consumer electronics, entertainment, advertisement or healthcare. Amazon cannot be defined in this traditional manner because it is not defined by the products or services it provides; it expanded its scope around its customers.

As a result, competition no longer takes place at the centre of the five forces. As we are moving towards a world of fluid boundaries, it becomes harder for a company to identify its future competitors as they look nothing like the company itself or even its traditional competitors, yet they offer competing value to the same customers (Rogers, 2016). Therefore, how can a company avoid competition if it does not know where its competitors are coming from?

Well-known chains in books, toys or sporting goods did not recognise Amazon's power to transform their businesses, such as Barnes & Noble or Toys R Us.

With simple and standardised products like books, Bezos started a whole new business in 1994. Amazon did not discover books and bookselling neither was the first online store; it simply redefined how books are sold and how the service is provided to customers (Markides, 2006). Amazon seized the opportunity to reinvent the traditional retail business model by building a platform that provides customers unparalleled choice and value (Crawford, 2014).

So why does it make sense to focus on customers? Because rather than a threat and a force that extracts value from the firm, buyers are an asset and the strongest force in Porter's framework, capable of building network effects that feed the growth of the platform.

Therefore, besides using technology to process orders and payments, Amazon used technology to leverage its user community, building multiple network effects. When it first started, Amazon built direct network effects by allowing users to write product reviews: the more reviews displayed, the more likely users were to visit the website to read them as well as to write them. Later, it built indirect network effects by allowing third-party sellers on its website: as the number of users increased, the more interest third-party sellers had to participate on Amazon Marketplace; in the same way, the more third-

party sellers were, the greater the choice and, consequently, more users were attracted to the website (Zhu & Iansiti, 2019). Bezos referred to these reinforcing virtuous network effects as the “Amazon flywheel” (Figure 7).

In a fast-changing environment, it is not enough for a business to deliver the same value that has succeed in the past; it needs to embrace a customer-centric attitude that continuously adapts to customers’ needs, constantly redefines the value it delivers and grasps emerging opportunities (Rogers, 2016).

It is unquestionable that following conventional thinking, copying or benchmarking the best practices in an industry can be much faster and easier (Charan & Yang, 2019). However, being customer-focused enables a company to stay ahead of the change in the market, to be more pioneering and to relentlessly delight customers.

While Amazon pays attention to its competitors, it does not follow trends; it creates and leads them. Amazon does not fight the future; it embraces it.

Amazon was the first company to truly harness the power of the internet to create an online bookstore; to allow customers to find and order not only best-selling books but also rare books; to easily buy them with the “one click” button, which saved customers’ information like credit card numbers; to have a recommendation mechanism based on customers’ previous purchases; and to provide a system to track orders (Mellahi & Johnson, 2000). What seems almost obvious and mandatory to have in today’s websites, was actually pioneered by Amazon.

Although competitors were able to copy and free ride on Amazon’s innovations, the company was able to stay ahead of the market and set the industry standards, capturing more market share and customers while its competitors were still trying to catch up (Mellahi & Johnson, 2000). This was possible by continuously innovating, having a recognisable and trusted brand and by being customer focused.

Accordingly, Amazon does not avoid failure; it is willing to experiment, fail and learn. Amazon embraces failure as a significant part of its equation for success, pushing the limits beyond of what has been already proven to work.

To do something is to do it differently. Amazon's eagerness to move first, to try and to fail allowed it to transform from an online bookstore, to an online retailer, to a movie studio, to a hardware company, to a provider of web storage services, to offer same-day delivery for several products with Amazon Prime and to create cashierless stores (Thompson, 2017; Tucker, 2018).

Being customer-centric is what makes Amazon able to expand to seemingly unrelated businesses, to determine what customers want and work backward, developing and learning new skills to meet their needs, as it has done with hardware, voice recognition and the cloud.

Traditional companies tend to safeguard their core resources and capabilities within the boundaries of the firm, expanding to adjacent businesses where they can leverage them.

However, Amazon has the distinctive capacity of inventing new capabilities for its own needs, so later it can find a way to monetise that invention for others (Tucker, 2018).

As an example, Amazon recognised the new rules in the digital age and went against traditional theory by selling its excess capacity in technology and creating AWS, which provides cloud services to external companies – even to competitors, such as Netflix.

This also illustrates how cooptation is possible in the digital age: while Amazon makes web operations and storage easier and cheaper for Netflix, it is making its operations harder by intensely competing in video streaming content (Ritala, Golnam, & Wegmann, 2014). The same happened with Apple: Amazon cooperates by distributing its book content through the Kindle app available on the iPad and competes head-to-head with Apple with the Kindle

Fire, which has become more than a mere e-reader device, offering similar benefits to the iPad (Ritala et al., 2014). Therefore, while both firms create and capture value in content supply for the iPad, they compete fiercely in devices (Kindle Fire *vs* iPad) (Ritala et al., 2014).

Thus, rather than a zero-sum game, competition is increasingly about cooperating with rivals and competing with partners (Rogers, 2016). A platform creates value not only by selling products or services, but by allowing transactions and by creating an ecosystem (Gupta, 2018).

When Amazon created the Marketplace in 2000, rather than seeing its third-party sellers as competitors, they were seen as valuable ecosystem partners that propelled much of Amazon's growth, helped it to outcompete its rivals and increased its market size. Thus, Amazon recognised their importance and did not consider them parasites, but symbiotes – one needs the other to succeed (Jacobides, 2019).

Therefore, Amazon acts as an orchestrator of the ecosystem, putting the success of its partners ahead of its first-party sales. As a result, Amazon has built a powerful ecosystem that has extended beyond traditional boundaries and across industries (Jacobides, 2019).

Adding to these changes, in the digital economy, Porter's advice of strategic purity may no longer hold true. Amazon provides an example of a hybrid strategy, combining cost leadership and differentiation.

Even though books are homogeneous and undifferentiated goods, the buying experience does not need to be. By providing a tailored customer experience, convenience, trust and continuous innovation, Amazon has been able to be successfully differentiated from its competitors (Kim et al., 2004). Simultaneously, Amazon emphasise its low prices, being on average the cheapest among major online retailers in the US, a study reveals (Hanbury, 2018).

In today's connected world, competitive advantage comes from creating a platform with strong network effects and an ecosystem around it (Gupta, 2018). However, what has changed regarding the sustainability of competitive advantage?

In the digital economy, no competitive advantage can be treated as sustainable for the long-term. Instead, companies need to think in terms of developing several temporary competitive advantages. In this way, profitability is increased during a certain time but must be constantly reinforced by new value drivers as old positions may become under threat (McGrath, 2013b; Rogers, 2016).

Amazon is the perfect example as it is constantly innovating, it is not afraid to kill its own businesses or to fail. When it first created Kindle, Amazon did not have expertise in hardware, so it dared to learn it. At the same time, its main business was to sell books, which would be harmed with Kindle, but it dared to risk and to kill its own business. Moreover, it dared to fail – and learn from it – with the creation of the Fire Phone, which led later to Echo and Alexa. Amazon did not rely only in the early success of its Marketplace; instead, it continuously innovated to replenish exhausted advantages and created several temporary competitive advantages. Amazon is a start-up at heart striving every day to exceed and redefine customers' expectations and to repeatedly remake itself (Robischon, 2017).

Summing up, the digital economy and digital platforms have challenged the traditional approaches that explain sustainable competitive advantage. Table 2 summarises all the points made so far and the changes that traditional strategic propositions have suffered with the emergence of the digital economy and digital platforms, answering both research questions.

Regarding the first research question, traditional assumptions of well-defined industries; clear distinction between competitors and partners;

avoiding competition by building a moat; and following strategic purity, fall behind in the light of the digital economy. Instead, rather than a threat to industry profitability, customers are the strongest force, creating powerful network effects; competitors compete and cooperate simultaneously, resulting in an ecosystem where different sides exchange value; and companies can choose a hybrid strategy, combining the best of cost leadership and differentiation strategies.

Furthermore, key resources and capabilities are no longer kept inside the company, they are shared and co-created with outside partners. In this way, companies reallocate and learn new skills, constantly evolving their business models to stay ahead of the market and innovate, learning from failure along the way.

Therefore, and answering the second research question, in a world where sustainable competitive advantage is an illusion, competitive advantage lies in a company's relationships with its customers, creating strong network effects; in its capability to create an ecosystem, cooperating with its rivals and competing with its partners; and in continuously focusing on customers and business model innovation, promoting flexibility to adapt to an ever-changing environment.

**Table 2.** Changes in strategy from the traditional strategic management research to the digital age

From	To
Competition within defined industries	Competition across fluid industries
Supply-side economies of scale	Demand-side economies of scale / Network effects
Focus on competition	Focus on customer
Optimise business model as long as possible	Evolve business model to stay ahead of the market
Avoid failure	Learn from failure
Key assets held inside the company	Key assets reside in outside networks
Exploit resources that had a period of positive performances	Reallocate assets and learn new skills
Clear distinction between partners and competitors	Blurred distinction between partners and competitors
Competition is a zero-sum game	Competitors cooperate in key areas
Products with unique features and benefits	Platforms with partners who exchange value
Be either low cost or differentiator	Be hybrid
Sustainable competitive advantage	Several temporary competitive advantages

Source: Adapted from “The Digital Transformation Playbook”, Rogers, D. L., 2016



# Conclusion

This research intended to understand the impact of the digital economy in competitive advantage and how it is achieved in the age of digital platforms. For this purpose, theories that gained widespread recognition and acceptance in the strategic management field were explained and criticised, namely Porter's Five Forces and generic strategies, and Barney's Resource-based View.

This is considered a relevant research topic as these theories and frameworks are still widely used by a vast majority of companies and taught in most of business schools, even if they do not completely portray the world we live in today.

These theories represent traditional "pipeline" businesses that have dominated for decades, which are inserted in stable industries and control a set of linear activities from the manufacturing process to the delivery of the finished product to the customer. But platform businesses do not work in the same way. The real value of digital platforms is the access they provide to the ecosystem, promoting value-creating interactions between external producers and consumers and the capacity to adapt to dynamic environments (Parker et al., 2016; Satell, 2016).

Therefore, as much as the digital economy poses a threat to the old traditional businesses, it also offers endless opportunities. In this sense, instead of treating the ICT and the internet as an enabler and a tool for formulating strategy as traditionally done; in the digital economy, the internet and strategy formulation must be integrated, touching all aspects of the organisation (Gupta, 2018).

In this sense, I hope that this research will contribute to the body of knowledge on competitive advantage in the age of digital platforms and help to change the paradigm regarding these worldwide recognised theories.

However, this research does not intend to say that traditional theories of competitive advantage are wrong or that they are no longer useful. Instead, it intends to prove that these theories are just not enough in fast-changing and dynamic environments. As time changes, so do theories. Thus, in the age of digital platforms, new concepts and models should be included and studied in the strategic management research.

Hence, this research was done through a single case study about Amazon.com. By analysing this company, it was possible to fully understand the thinking behind every step and investment made, what makes it so successful and enables it to grow exponentially.

Amazon has its feet on the ground, always following its core principles and its head in the clouds, always looking to the future and the next big innovation.

This case study gives the example of a digital giant that redefined everything we believe as true. Therefore, the main conclusions of this research will be presented next, which helped to answer the proposed research questions.

First, competitive advantage is becoming less a function of choosing an attractive industry, a unique strategic position and set of resources, but is increasingly about building platforms with strong network effects and an ecosystem around it.

Second, traditional industry boundaries are blurring as well as the distinction between competitors and partners. Thus, it becomes difficult for a company to identify its future competitors as they emerge from everywhere, either from the same or different industries. Moreover, competition gives place to co-opetition, requiring a combination of competition and collaboration. Instead of formulating strategy to undercut new entrants in the industry or trying to decrease suppliers and buyers' bargaining power or keeping the valuable resources and capabilities within the boundaries of the firm, companies are partnering with external firms, sharing and co-creating value. In

this sense, *“the best to become a dominant player is to become an indispensable partner”* (Satell, 2016, para. 19).

Third, rather than a threat, customers are the strongest force of the five forces framework, capable of building strong network effects. Companies that deliver the same value that has worked in the past will not survive in the face of a fast-changing environment. Thus, companies must adopt a customer-centric approach, searching for new and different ways to create and deliver value to its customers.

Fourth, it is by constantly adapting to customers' needs and innovating that a company is capable of staying ahead of the market. Instead of following and benchmarking to the best practices in an industry, a company can create and lead trends. Therefore, it will have the agility and flexibility of a start-up to take full advantage of the numerous opportunities that the digital economy has to offer.

In this way, companies should not be afraid of failure and try to avoid it; they should embrace and learn from it. Without innovation and boldness, companies tend to slack off and free ride on the competition, not being able to pioneer.

Finally, superior performance is becoming less about exploiting sustainable competitive advantages, but increasingly about exploiting several temporary competitive advantages. As Dell's CEO, Michael Dell, says *“The only constant in our business is that everything is changing. We have to take advantage of change and not let it take advantage of us. We have to be ahead of the game”* (Brown & Eisenhardt, 1998, p. 15).

Therefore, companies need to be nimble enough to shift their strategies frequently and suddenly, divesting from exhausted advantages and focusing on emerging opportunities.

This research concludes that although traditional theories of competitive advantage are useful and insightful in slow and stable markets, they are not enough in dynamic and fast changing industries.

## Limitations and Further Research

This research presents some limitations. One of the limitations of this study is concerned with the use of only secondary data, relying just on publicly available data. From the beginning, a criterion used to choose the company to study was to have vast information available about it. However, by adding primary data, the analysis would have been richer, allowing to have an inside perspective and to cross-check information.

One may consider a limitation the fact that this research is based on a single case study, lacking the capacity to generalise. Although a company like Amazon has the capability to question taken-for-granted assumptions of the traditional strategic theories of competitive advantage, a multiple case study with the most valuable companies in the world, such as Apple, Google and Microsoft, would be enlighten and relevant to the field.

This leads to further research that can be made in this topic. As already mentioned, doing a multiple case study about today's digital giants would be helpful to understand how these companies are shifting the paradigm from a world of "pipeline" businesses to digital platforms and what distinguishes them from traditional companies.

Digital platforms have the power to transform industries globally, creating new industries, killing ones and reinventing others (Evans & Schmalensee, 2016). Thus, while these traditional theories are still valid in stable industries, sooner or later traditional companies will have to adapt to the digital economy and to the emergence of digital platforms. This is a fierce and intense battle than

even the bigger and established companies have difficulties fighting, such as the retail giant Walmart.

Therefore, a relevant future research could be about how established companies can adapt to the challenges imposed by the digital economy and become a strong competitor in the age of digital platforms. It would be interesting to understand how legacy companies with legacy products, massive infrastructures and historical profit pools would become nimble and agile to adapt to the digital era.



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# Annex

## Annex I: Amazon Expansion

**Table 3.** Amazon Categories

<b>Amazon Marketplace</b>	
2000	<b>Amazon Marketplace:</b> entry of third-party sellers on Amazon’s website
2006	<b>Fulfilment by Amazon (FBA):</b> service to stock and fulfil orders for Marketplace users
<b>Amazon Web Services (AWS)</b>	
2006	<b>Amazon Web Services (AWS):</b> offers reliable, scalable, and inexpensive cloud computing services
<b>Digital Devices</b>	
2007	<b>Kindle:</b> device that allowed users to download and read books, magazines and newspapers
2011	<b>Kindle Fire:</b> smart tablet that offered video, internet capabilities, gaming
2014	<b>Amazon Echo for Prime members:</b> digital personal assistant named Alexa that could answer questions, play music, etc <b>Amazon Dash Button:</b> one-click ordering button to order household staples
2015	<b>Alexa-enabled Echo for the general public</b>
2018	<b>New Alexa-enabled devices</b> for the home and car
<b>Digital Media</b>	
2007	<b>Digital Text Platform:</b> provided authors the ability to self-publish their books on Amazon
2009	<b>Amazon Publishing:</b> publication of emerging, bestselling and critically acclaimed authors in digital, print, and audio formats
2010	<b>Amazon Studios:</b> produce original content, such as television shows, series and movies

2011	<b>Prime Instant Video:</b> video streaming service free to Prime members <b>Amazon Appstore for Android:</b> provide apps and games
2014	<b>Amazon Music:</b> streaming service free to Prime members <b>Acquisition of Twitch:</b> video-game streaming service
<b>Fashion</b>	
2002	<b>Apparel &amp; Accessories Store:</b> merchandise from 400 labels
2006	<b>Acquisition of Shopbop:</b> online fashion retailer
2007	<b>Endless:</b> shoe and handbag website
2009	<b>Acquisition of Zappos:</b> online footwear retailer
2017	<b>Major brands started selling on Amazon:</b> Nike, Calvin Klein, Levi Strauss <b>Prime Wardrobe:</b> allows users to try on and return clothes for free
<b>Groceries</b>	
2006	<b>Grocery Store:</b> online store offering dry goods from over 1.200 brands
2007	<b>AmazonFresh:</b> grocery delivery service
2010	<b>Amazon Mom:</b> membership program that offers free shipping on diapers and other baby supplies
2017	<b>Acquisition of Whole Foods:</b> 460 natural food stores into Amazon's portfolio
<b>Physical Stores</b>	
2015	<b>Amazon Books:</b> curated store of customer-favourite books
2018	<b>Amazon Go:</b> convenience store with no cash registers, sensors charge customers automatically for their purchases <b>Amazon 4-Star:</b> store featuring products from Amazon.com with more than 4 out of 5 stars
<b>Healthcare and Beauty</b>	
2018	<b>Joint venture with JPMorgan Chase &amp; Co. and Berkshire Hathaway:</b> to reduce healthcare costs <b>Acquisition of PillPack:</b> online pharmacy that provided ordering and shipping

2019	<p><b>Amazon Care:</b> virtual medical clinic for Amazon employees</p> <p><b>Belei:</b> private label focused on skincare products</p>
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Source: Wells, J. R., Weinstock, B., Danskin, G., & Ellsworth, G. (2019). Amazon.com, 2019. HBS No. 9-716-402, 45.

## Annex II: Amazon Leadership Principles

**Table 4.** Amazon Leadership Principles

<b>1. Customer obsession</b>
Leaders start with the customer and work backwards. They work vigorously to earn and keep customer trust. Although leaders pay attention to competitors, they obsess over customers.
<b>2. Ownership</b>
Leaders are owners. They think long term and don't sacrifice long-term value for short-term results. They act on behalf of the entire company, beyond just their own team. They never say "that's not my job".
<b>3. Invent and Simplify</b>
Leaders expect and require innovation and invention from their teams and always find ways to simplify. They are externally aware, look for new ideas from everywhere, and are not limited by "not invented here." As we do new things, we accept that we may be misunderstood for long periods of time.
<b>4. Are Right, A Lot</b>
Leaders are right a lot. They have strong judgment and good instincts. They seek diverse perspectives and work to disconfirm their beliefs.

<b>5. Learn and Be Curious</b>
Leaders are never done learning and always seek to improve themselves. They are curious about new possibilities and act to explore them.
<b>6. Hire and Develop the Best</b>
Leaders raise the performance bar with every hire and promotion. They recognize exceptional talent, and willingly move them throughout the organization. Leaders develop leaders and take seriously their role in coaching others. We work on behalf of our people to invent mechanisms for development like Career Choice.
<b>7. Insist on the Highest Standards</b>
Leaders have relentlessly high standards – many people may think these standards are unreasonably high. Leaders are continually raising the bar and driving their teams to deliver high-quality products, services, and processes. Leaders ensure that defects do not get sent down the line and that problems are fixed so they stay fixed.
<b>8. Think Big</b>
Thinking small is a self-fulfilling prophecy. Leaders create and communicate a bold direction that inspires results. They think differently and look around corners for ways to serve customers.
<b>9. Bias for Action</b>
Speed matters in business. Many decisions and actions are reversible and do not need extensive study. We value calculated risk taking.
<b>10. Frugality</b>
Accomplish more with less. Constraints breed resourcefulness, self-sufficiency and invention. There are no extra points for growing headcount, budget size, or fixed expense.

<b>11. Earn Trust</b>
Leaders listen attentively, speak candidly, and treat others respectfully. They are vocally self-critical, even when doing so is awkward or embarrassing. Leaders do not believe their or their team's body odor smells of perfume. They benchmark themselves and their teams against the best.
<b>12. Dive Deep</b>
Leaders operate at all levels, stay connected to the details, audit frequently, and are skeptical when metrics and anecdote differ. No task is beneath them.
<b>13. Have Backbone; Disagree and Commit</b>
Leaders are obligated to respectfully challenge decisions when they disagree, even when doing so is uncomfortable or exhausting. Leaders have conviction and are tenacious. They do not compromise for the sake of social cohesion. Once a decision is determined, they commit wholly.
<b>14. Deliver Results</b>
Leaders focus on the key inputs for their business and deliver them with the right quality and in a timely fashion. Despite setbacks, they rise to the occasion and never settle.

Source: <https://www.aboutamazon.com/working-at-amazon/our-leadership-principles>