

Name

Institutional Affiliation

Impact of Covid-19 on Amazon Business Operations

Executive summary

Covid-19 has rendered the economic predictions that were done at the beginning of the year unusable for the better part of the year. For example, Amazon had hoped to increase the workforce by 100,000 workers by the end of the year. Now the company is planning on laying off workers to survive the impact of the pandemic. Business analysis will show that the online business has grown, while other businesses have been declining. However, the fact that only the essential products income line is active means that the revenue will decline after all compared to last years' \$280 billion worth of sales.

However, suggestions to move most business to the online platform, which means to increase online revenue from 60% to 90% contribution, will ensure the company's survival. Additionally, Amazon should adopt a pure Omni-channel model where the block and mortar stores are purely warehouses and consider moving businesses to home delivery service. Additionally, this is the time to increase operations in the foreign countries using the same structure that is in USA. Finally, Amazon should run more CSR programs to increase visibility and win over more customers.

Summary of Business Model

Amazon creates value by giving manufacturers the opportunity to sell their products in the global market. Amazon has online stores and physical stores from where it interacts with most of its customers. Cuofano (2020) cites that the Amazon had a revenue flow of \$280 billion in 2019 and nobody knows the direction this revenue will go in the current year given the Covid 19 pandemic. Amazon has suppliers who post photos of products that they have and deliver them to the customers when the customer makes an order. Once a sale is made, the seller cuts a commission to Amazon for allowing him/her the opportunity to sell on the company's platform.

Essentially, Amazon earns its revenue from advertising. Giving the sellers the opportunity to access a bigger market means that the seller will not have made that sale if it were not for Amazon. Additionally, Cuofano (2020) writes that online stores contributed 60% of Amazon's revenue in the year 2019. The second revenue earner was Amazon's cloud services that gave 10% revenue last year; they were followed by the physical stores that had 3.26% of the total revenue.

According to Redman (2019), Amazon has 526 retail stores that are spread across USA. Most of these stores are grocery and book stores. Amazon began as a book store retailer that has grown into an-everything store Cuofano (2020). On top of that, Amazon has Amazon AWS as an infrastructure that boosted the valued of property, plant, and equipment from \$61 million in 2018 to \$72 million in 2019 (Amazon, 2019).

Covid-19 Assessment

UNDP (2020) estimates that the forced lockdown since March in US and much of the world will have an adverse global economic impact. The report read that 195 million jobs would

be lost as a result of Covid 19 pandemic, half of which would not be recovered post Covid. The effect on international trade is so enormous such that developing countries would lose \$220 billion if the situation prolongs for three more months. Since international trade is worst hit by the pandemic, conglomerates such as Amazon may experience a downturn in the bottom line during the second and third quarter of the year. Looking at Amazon's geographical presence, it is almost certain that their business will be adversely hit one way or another.

Amazon vulnerability to Covid-19

Amazon has established business virtually in every country, but the largest market is its home country, USA that takes up to 70% of the market share. This represents \$193 billion worth of business in USA followed by the rest of the world combined, except for Japan which is \$16 billion, Germany that gives \$22.73 billion, and UK that has \$17.5 billion (Cuofano, 2020). The U.K and the U.S have the leading numbers of people affected Covid-19, which indicates that Amazon's largest market are hot zones of the pandemic. The expected effect on Amazon's business is certainly negative considering the spread of the disease.

Assuming that the lockdown is causing the most severe effects on businesses and that the lockdown went for 1.5 months from April (the possibility which is now zero because most countries in the world have extended the lockdown past mid-May) the effect on the global economy would be minimal. Since the spread has continued to increase in most parts of USA and the death toll is rising exponentially, the spread is expected to move until the country attains a flat curve of new infections suggestively from 4.5 months to 6 months. Therefore, the best case scenario would have been ending the lockdown at 1.5 months and the worst case involved ending it past six months. Already countries are opening the economies at a slow pace and the pandemic is barely 4.5 months old. Most countries are managing to control the spread and offering

containment measures as the reason for slowly opening up. The following figure shows how following the containment measures from government could ease the spread:

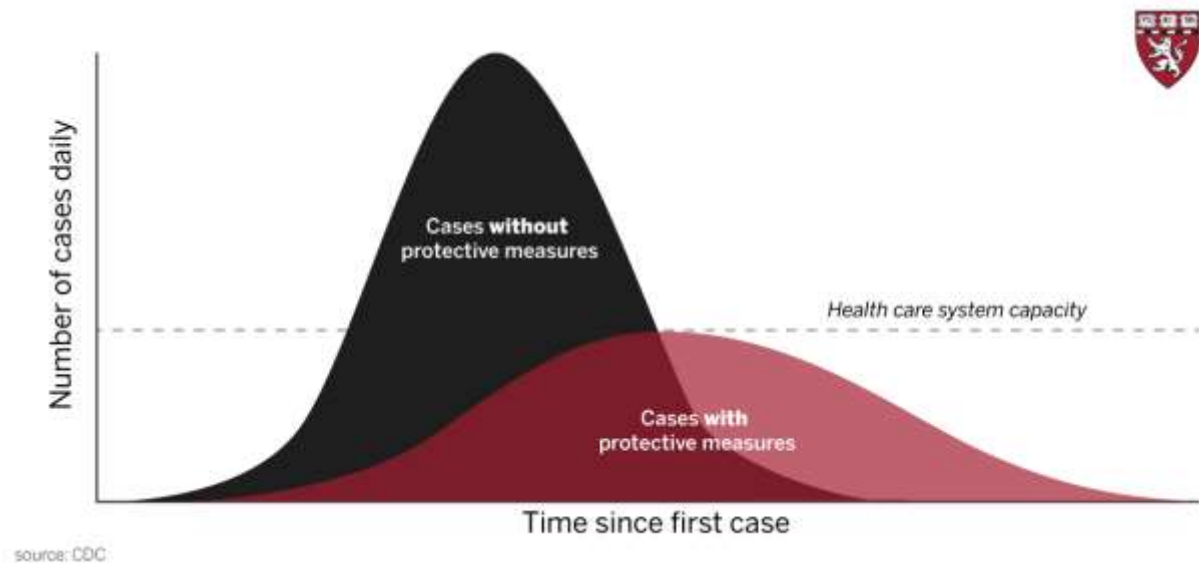


Figure 1: Source is Harvard Health Publishing (2020)

If the governments fail to take measures of opening up the economy, at 4.5 months, the US economy will decline by 3.8%, the UK by 5.4%, Japan by 5.2% and Germany by 5.9% (Fernades, 2020). Shrinking the economies to these levels in spite of the stimulus packages that the government has offered in line with expansionary fiscal policies means that the normal operations of businesses will also shrink. These four countries are the stronghold markets for Amazon and when their GDPs contract with those figures, the company will certainly cut its revenue this year compared to last year. To illustrate the possible decrease of revenue even the stores that sell groceries have reduced the number of workers in a store and most of the businesses from the physical stores have shifted to online platform (Haileyesus, 2020). The measures of controlling the spread of Covid 19 have definitely affected the normal operations at Amazon.

Also, according to a report by OECD (2020), the global economic growth will decline by 2.4% at the end of 2020. This kind of economic growth rate will trigger a recession. However, Fernades (2020) elaborates that the health risk in this case does not correlate with the economic risk because unlike during other pandemics, the world is currently more integrated, the demand and supply have been simultaneously affected, and the interest rates are at an all-time low. However, visit at the stores has significantly reduced as shown in the figure below:

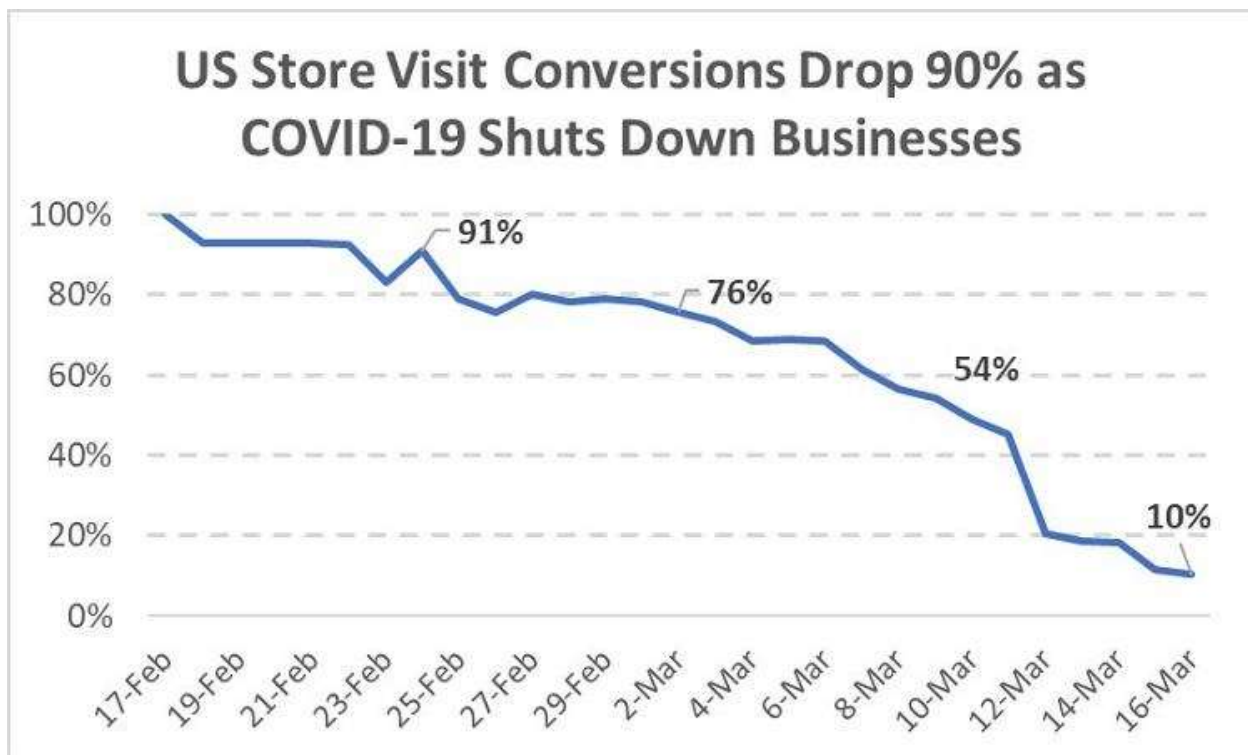


Figure 2: Source is Irvine (2020)

Business Impact Analysis

According to Business Wire (2020), Amazon was supposed to add the workforce by 100,000 workers this year. In an effort to control the economic impact of the disease, the company will not be making that addition. Also, Amazon has abandoned most of its supply chains to focus on delivering essential products (Haileyesus, 2020). This move to focus on high

priority items will impact negatively on the entire business model since the income line from food stuff cannot compensate the lost income from delivering other products. Additionally, Amazon is spending over \$4 billion during this period to support the employees and to offer customers free masks during the lock down period (Day One Staff, 2020). This amount of spending goes further to diminish the expected net profits at the end of the year.

However, Davis (2020) has provided that the future of e-commerce is greater now than it has ever been. He goes to show that online business has increased by 48% margin in USA since the inception of Covid-19. Such estimation is good news for Amazon whose largest business in 2019 was based on online transactions; therefore, instead of 60%, the online business could take up to 90% of all Amazon business. However, Davis (2020) further elaborates that the luxury goods retail business will be hard-hit by the impending recession as the essential goods retail business remains robust. Going by this prediction, it would be necessary for businesses to align their priorities with the market in the future.

The best case scenario for future business at Amazon has already passed because the spread of the virus persisted past the 1.5-month mark. The worst case scenario will happen if the forced lockdown continues to 6-month mark. The most likely scenario will happen if lockdown measures are released at 3-4.5-month mark. Business at the stores will start to pick and the demand for luxury goods, which form significant number of income lines for Amazon will also start to increase.

Recommendations for Business Continuity

A two-step initiative would relieve Amazon the impact of Covid-19. Firstly, the company should enhance the Omni-channel business model where they increase the number of home

deliveries from the stores— completely ban customers from visiting stores and offer home deliveries. Secondly, as Davis (2020) suggested, the recession will affect the non-essential products; therefore, the swift move would be to invest more on essential goods at cheaper prices to maintain the largest market share.

Besides the two-step strategy of combating the impact of Covid-19, the operations of the business should alter to fit the current situation. Firstly, it will be inevitable to lay down workers post Covid-19 since business will have moved to online; therefore, it is best to prepare workers that some of them may be stopped. Secondly, now is the time to increase market share in other countries. The company should be thinking of how to lay the same structure that it has laid in US market in other countries. Thirdly, participate more aggressively in CSR than it has done so far.

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Appendix: Business Model Canvas

According to Schmitz (2012), the components of a business model include value proposition, Market participation, value chain infrastructure, and global management sub-model. The following are the specific components of Amazon business:

1. Value proposition

- a. Online stores
- b. Physical stores
- c. Amazon AWS
- d. Subscription services
- e. Third party teller services
- f. Advertising

2. Market participation

- a. USA 70%
- b. Advertising is participating with Google
- c. AWS is a cloud service that Amazon offers to customers

3. Infrastructure

- a. 526 stores
- b. Cloud set up

4. Global management

- a. USA's portfolio is \$193 billion
- b. UK's portfolio is \$17.5 billion
- c. Japan's portfolio is \$16 billion
- d. Germany's portfolio is \$22.73 billion
- e. Rest of the world portfolio is \$31.12 billion