

IT's About Business 7.5

Amazon Moves into the B2B Marketplace

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Amazon Business (www.amazon.com/business) is Amazon's e-commerce website that caters to the wholesale and distribution business-to-business (B2B) sector. Amazon Business does for commercial customers what Amazon.com does for individuals (B2C).

Amazon's B2B efforts began with AmazonSupply, which debuted in 2012 with half a million products on offer. By 2014, the inventory had expanded to more than 2.25 million items, including tools, renovation supplies, cleaning supplies, steel pipes, and a host of other products.

In 2015, Amazon created Amazon Business and merged AmazonSupply into it. Amazon Business uses a hybrid business model, selling both products directly from its own warehouses, as well as those from third-party vendors. The outside vendors, which still have to compete with Amazon products, receive a commission of between 6 and 15 percent for their items sold, depending on the type of product and how big the order is.

Amazon Business customers, who are eligible to buy and sell if they have a tax ID number, can access hundreds of millions of business-only products, obtain bulk discounts, set up a corporate credit line, and receive free two-day shipping on orders over \$49. Clients can also talk with manufacturer representatives about product specifications. This process is required for sales of complex technical products.

Amazon Business offers several benefits for vendors. For example:

- The site lists products, along with any accompanying quality certifications such as ISO 9000.
- Amazon Business account holders can qualify for special offers not available to individuals on the Amazon.com site. This helps vendors meet requirements not to sell products that are forbidden to be sold directly to consumers, such as high-tech healthcare equipment.
- Customers can search for items by both manufacturer and distributor part numbers.
- The site can demonstrate products in web videos and host downloadable computer-aided design (CAD) drawings.

Amazon Business also offers benefits for buyers. For example:

- Multiple buyers within an organization can create business accounts and share payment methods and shipping addresses.
- Promotions from multiple sellers are displayed on one product page, making it easier to compare pricing and vendor ratings from Amazon.
- Buyers can view other buyers' product reviews.
- Amazon Business is connected with buyers' procurement systems, allowing them to put Amazon on their procurement software's list of authorized sellers.

Wholesalers are taking Amazon's threat seriously. The wholesale industry in the United States is almost twice the size of the retail industry. In 2014, wholesale sales totaled \$7.2 trillion, compared with more than \$4 trillion for retail sales. While the wholesale industry is larger than retail, the companies themselves tend

to be smaller. Most of America's 35,000 distributors are regional, family-run businesses. Typical yearly sales are under \$50 million and only 160 of these businesses report annual sales exceeding \$1 billion. In contrast, Amazon reported more than \$89 billion in revenues in 2014, selling goods in both the B2C and B2B marketplaces. The average wholesaler offers approximately 50,000 products online, compared to Amazon Business's hundreds of millions of products.

Amazon Business is competitive even in niche markets. Take scientific equipment as an example. Items such as centrifuges and Bunsen burners are usually only offered by specialty distributors. But you can get one with the click of a mouse through Amazon Business. Few specialty distributors can compete with Amazon's huge product list, its easy-to-use website, two-day delivery, physical infrastructure (fulfillment centers in the United States), and information technology infrastructure (e.g., Amazon Web Services).

To acquire and maintain competitive advantage, Amazon Business keeps items that may not sell quickly, in order to avoid stockouts that plague other distributors of specialty items. Industry analysts estimate that Amazon has on hand more than half the inventory that it offers on the website at any point.

B2B has very small margins, typically 2 to 4 percent. Amazon's size allows it to make money through high volumes. It achieves these high volumes through—what else?—beating competitors' prices by about 25 percent on common products, according to a Boston Consulting Group (www.bcg.com) report.

Despite its success, Amazon Business does have competition. Consider W.W. Grainger (www.grainger.com), in business since 1927, which captures about 6 percent of the entire U.S. B2B market. The company, which sells tools for maintenance and repair, now operates more than 700 regional sales locations and 33 warehouses. The company recorded \$10 billion in revenue in 2014, most of which it still generated offline. Nevertheless, in 2014, it had more than \$3 billion in online sales.

One area that Amazon Business may not be able to penetrate is the close partnerships that some distributors have with institutional clients. For example, medical supplier Cardinal Health (www.cardinalhealth.com) has taken control of the entire supply chain at the Nebraska Medical Center. Cardinal handles everything from truck to patient. It orders products from suppliers, tracks product distribution, handles loading dockworkers, and deals with supplier invoicing.

The challenge confronting the nation's 35,000 wholesalers and distributors is how to compete with Amazon Business. Industry analysts identify two possibilities:

1. Provide value-added, personalized services to customers. For example, Valin Corporation (www.valinonline.com) has specialized in the oil and gas sector, dispatching engineers to oilfields to help deploy the company's products that manage output at surface oil wells.
2. Go into areas Amazon may fear to tread. Amazon may not be interested in trying to get up to speed in specialized business environments. For example, will Amazon want to sell oxygen tanks or soda pumps? Furthermore, Amazon might not want to manage products that are dangerous or exotic, such as dentists' chairs, or that require specialists.

Sources: Compiled from D. Davis, "Amazon Business Helps Buyers Beat Their Negotiated Supplier Prices," *B2B E-Commerce World*, June 7, 2016; P. Demery, "Amazon's Billion-Dollar B2B Portal Is Growing Rapidly," *B2B E-Commerce World*, May 4, 2016; E. Smith, "Can Amazon 'Uber' Distributors?" *Modern Distribution Management*, June 17, 2015; E. Smith, "Recommended Reading: Amazon Business Open to Distributors," *Modern Distribution Management*, June 9, 2015; D. Buss, "New Amazon Business Marketplace Goes after B2B Dollars," *Brand Channel*, May 1, 2015; E. Smith, "Amazon Reinvents B2B Model," *Modern Distribution Management*, April 29, 2015; S. Soper, "Amazon Business Aims for \$1 Trillion Corporate-Spending Market," *BloombergBusiness*, April 28, 2015; P. Demery, "Say Hello To Amazon Business, Good-Bye to AmazonSupply," *Internet Retailer*, April 28, 2015; C. O'Connor, "Amazon Launches Amazon Business Marketplace, Will Close AmazonSupply," *Forbes*, April 28, 2015; C. O'Connor, "Amazon's Wholesale Slaughter: Jeff Bezos' \$8 Trillion B2B Bet," *Forbes*, May 7, 2014; J. Hans, "Q&A: How Amazon Could Change 'B2B,'" *Manufacturing.net*, February 3, 2014; www.amazon.com/business, accessed August 18, 2016.

Questions

1. Consider Tulsa Community College (www.tulsacc.edu), which is using Amazon Business to order test tubes, basketballs, office supplies, and other goods instead of having employees buy them from local retailers or specialty sellers. The daily needs of the college's 15,000 students translate into about \$10,000 of orders per month.

What is the impact of Amazon Business on local wholesalers and retailers in Tulsa?

How could local businesses in Tulsa compete with Amazon Business?

2. Provide other methods for wholesalers to compete with Amazon Business.

Before you go on ...

1. Briefly differentiate between the sell-side marketplace and the buy-side marketplace.
2. Briefly differentiate among vertical exchanges, horizontal exchanges, and functional exchanges.

7.4 Ethical and Legal Issues in E-Business

Technological innovation often forces a society to reexamine and modify its ethical standards. In many cases, the new standards are incorporated into law. In this section, you will learn about two important ethical considerations—privacy and job loss—as well as various legal issues arising from the practice of e-business.

Ethical Issues

Many of the ethical and global issues related to IT also apply to e-business. Here you will learn about two basic issues: privacy and job loss.

By making it easier to store and transfer personal information, e-business presents some threats to privacy. To begin with, most electronic payment systems know who the buyers are. It may be necessary, then, to protect the buyers' identities. Businesses frequently use encryption to provide this protection.

Another major privacy issue is tracking. For example, individuals' activities on the Internet can be tracked by cookies (discussed in Chapter 4). Cookies store your tracking history on your personal computer's hard drive, and any time you revisit a certain website, the server recognizes the cookie. In response, antivirus software packages routinely search for potentially harmful cookies.

In addition to compromising individual privacy, the use of EC may eliminate the need for some of a company's employees, as well as brokers and agents. The manner in which these unneeded workers, especially employees, are treated can raise ethical issues: How should the company handle the layoffs? Should companies be required to retrain employees for new positions? If not, how should the company compensate or otherwise assist the displaced workers?

Legal and Ethical Issues Specific to E-Commerce

Many legal issues are related specifically to e-commerce. A business environment in which buyers and sellers do not know one another and cannot even see one another creates