



Marketing Plan for Amazon

Team Number: Z01

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Executive Summary

Amazon.com is an online retail giant that offers different products and services at the best price. Amazon started in 1995 by Jeff Bezos. It was initially an online book retailer that offered large categories of books at discount price. Today, Amazon is one of world's largest online retailer that holds about 94 warehouses in the U.S alone. The mission of Amazon is "to be earth's most customer centric company, and to build a place where people can come to find and discover anything they might want to buy online" (Farfan, 2016). Additionally, the company's goal is to become the best place to buy and find products and services online. Amazon's strength is provide products and services at a lower cost than its competitors. Additionally, the company offers the highest quality products that are directly from reliable manufacturers. More importantly, it offers *Amazon Prime*, a loyalty yearly subscription that offers faster shipping, which makes it convenient for their customers to receive the products in a timely manner, and the ability to handle returns or exchanges sufficiently. While *Amazon Prime* is highlighted as the company's strength, it is also its weakness. While Amazon holds a broad market of Generation X and Millennials, its most loyal consumer base has been Baby Boomers. Additionally, Amazon's online shoppers can be segmented into different age groups with overlapping needs and wants. Statistically, Amazon's customers need and want technology-oriented products. While Amazon's current market is the technological market, its target market is to fulfill the market gap which delivers to younger generations and parents. The gap that we have discovered could be filled with Amazon Bear, a child's toy that will educate and entertain children while parents are busy doing other things. Amazon Bear is a computationally-enhanced toys whose software is operable with smartphone or tablet. This new product is designed to be both for educational and entertainment purposes. Amazon Bear's features can be found in most of other popular electronic

devices in the market. Some of its highlighted specifications include Bluetooth, built-in wireless speakers, playing eBooks as well as children's favorite stories, and functioning as nanny cameras for parents. Amazon is expected to market Amazon Bear through advertising and direct marketing to create direct communication and customers' awareness. With advertising, we will implement online ads, TV commercials, social media, and event sponsorship. On Amazon's homepage, Amazon Bear is introduced through a special video, which will encourage pre-orders. Additionally, coupons will be issued to create incentives to buy. On TV commercials, Amazon Bear will be featured by major cartoon and family network channels. Moreover, social media such as Facebook and Instagram will create messages of Amazon Bear features and interaction between the product and customers. More importantly, Amazon Bear will be physically displayed at selective events so that customers can test the product themselves and give their feedbacks. With direct marketing, Amazon will send mass emails and letters that offer coupons to both prime and nonprime customers so that they can start pre-ordering. Amazon will primarily use direct distribution channels to market Amazon Bear. The reason Amazon Bear should be directly sold customers is because it generates higher profit margins and receives more accurate feedback from customers. More importantly, Amazon will organize Build-A-Bear Workshop brick and mortar stores to help target young children, who want to customize their own stuffed animals. Additional to distribution strategy, Amazon Bear will be distributed to selective toy stores such as Toys R Us, Target, and Wal-Mart. Amazon Bear's total sales forecast is \$3.5 – 4 million for first year. Though the return on sales will be low in the first year at 3.57%, this is necessary for penetration pricing; economies of scales will increase unit sales over time and therefore help generate more profit in the year 2021, which is at 7.07%. Amazon Bear need to reach 2.6 million units in sales in order to break-even with the fixed of cost \$60 million.

Company Description

Jeff Bezos started Amazon.com with the ambition that he'll enter the market as the first online book retailer (Annual Reports and Proxies, 2016). Amazon.com started from offering large categories of books at discounted prices (Bloomberg Business, 2015). Out of this major success, Amazon has arisen as an online retail giant that has expanded into different products and services that maintain offering the best prices. With an emphasis for growth, Amazon grew into the world's largest online retailer that holds about 94 warehouses in the U.S. alone (Amazon Fulfillment Center Locations, 2016).

Amazon is a publicly traded company that holds a market cap of \$236.42 billion. (Amazon.com, Inc., 2016). This success comes from being very consumer oriented, and being innovative "on behalf of customers." Net sales reached \$107 billion for 2015, a 20% growth since 2014, by offering their own lines of products like *Amazon Echo*, *Amazon Pantry*, and *Fire TV* (Annual Reports and Proxies, 2016). The foundation that started every innovation for Amazon.com was from this principle: "start with the customer and work backwards" (BBC documentaries, 2014). To support their mission, Amazon has more than 222,000 employees in the U.S. alone, with sellers, just in California, that exceed 465,000 (Amazon, 2016).

Mission and Goals

Amazon.com has had a clear focus and a solitary mission since it began. Founder Jeff Bezos has publicly referred to its mission statement, over its 18-year history, as the guiding force behind his leadership decisions. It can be concluded that the success of Amazon.com as the top internet retailing company in the world is due, at least in part, to their unwavering commitment to this mission, and the daily execution of it. The mission and vision of Amazon.com is: "to be earth's

most customer centric company; to build a place where people can come to find and discover anything they might want to buy online” (Farfan, 2016).

Amazon’s goal and objective is to become the best place to buy, find, and discover any product or service online. Amazon.com wants to continue to enhance and broaden its brand, customer base, and electronic commerce expertise, with the goal of being customers' preferred online shopping destination, around the world. Amazon has used many different strategies in order to fulfill this goal. The company has expanded *Amazon Fresh* to Los Angeles and San Francisco, after testing the service in Seattle for five years. The company has also partnered with favorite local merchants to provide the same convenient home delivery on a great selection of prepared foods.

Amazon’s SWOT Analysis

	Pros	Cons
	Strengths	Weaknesses
Internal	Products and Services at a	Low Operating Profit Margin
	Offering High Quality	Patent Infringement Lawsuits
	Customer Relationship	
	Opportunities	Threats
External	Variety of Products and	Brick-and-mortar & E-Commerce
	Vertical and Horizontal	Regulation
	New Business Model and	

Amazon’s Strengths

Products and Services at a Lower Cost: Amazon offers a wide selection of products. A search of the site reveals tons of listings in any particular item in the different product categories, like music, books, electronics, health and beauty, automotive, grocery and clothing. This strategy has helped the company become one of the largest internet-based retailer around the globe. The company offers its products through various categories through its e-commerce. The online

format helps the company rotate its inventory quickly, reducing its management costs, and enables the company to offer comparatively low prices (Amazon 2016). Through this method, the company brings in valued customers, and it is the main reason why the company has grown at such a significant rate (Barr, 2016).

Offering High Quality Products: Amazon also offers the highest quality products that are straight from reliable manufacturers. Any inconsistencies to products, and Amazon will close and investigate it, which makes them the most trustworthy retailer on the web. Another huge advantage Amazon has is the fact that they have a variety of warehouses in each one of the markets that they operate in. Most of these warehouses are spread around in each country so that the goods can be delivered faster with a much lower cost (Rey, 2013).

Customer Relationship Management (CRM) and Information Technology: The company offers faster delivery options which makes it convenient for its customers to receive products in a timely manner. The company also has a very advanced in Customer Relationship Management (CRM) and Information Technology (IT) which supports its business strategy. Amazon has a system that records and interprets customer buyer behavior, which helps offer its customers specialized products that would best meet their needs. Amazon is also very good with how it handles customer issues; such as returns or exchanges.

Amazon's Weaknesses

Low Operating Profit Margin: Amazon's strategy of offering low cost and fast delivery to attract more customers could potentially hurt its bottom line. The company reported its most profitable quarter during 2015 but its profit margin was still lower than Wall Street's expectation. The low profit margin disappointed investors and Amazon's shares went down by more than 13 percent (Saito & Nair, 2016). Although the company dominated the online retail

market during the past holiday season, its profit margin was still low due to its increasing operating costs. Amazon's shipping costs have risen steadily over the years. *Amazon Prime* membership, which offers free one to two-day shipping, has driven up overall shipping costs. To offset some of the high shipping costs, Amazon recently increased the Prime annual membership fee from \$79 to \$99. Although the new fee includes eBook perks and free access to 40,000 movies and TV episodes, prime users have complained about the increased overnight shipping costs, along with new limitations on two-day shipping orders over \$25 (Kelleher, 2014). While the increased fee might not drive away many Amazon loyalists, it may discourage potential new customers. If Amazon is not able to control its shipping costs, their prices may not stay low.

Patent Infringement Lawsuits: In the recent years, Amazon has been involved in several lawsuits related to patent infringement, product liability, environmental, antitrust and others. In 2013, Online News Link, Adaptix and Cellular Communications Equipment, and Personalized Media Communications filed complaints against Amazon and AWS alleging patent infringement. In 2014, Kaavo, Spansion, SimpleAir, and Smartflash Technologies also filed complaints against the company. Although the company strongly defends its position in all cases, the time and money spent defending these cases could potentially jeopardize its financial stability and could hurt its reputation (Amazon.com, Inc., 2014).

Amazon's Opportunity

Variety of Products and Options offered: As e-commerce businesses have increased over the past few years, Amazon has met the need of a large number of customers who use their smart phones, tablets, and other internet-accessible devices to shop online. By developing new products, including *Kindle Scout*, *Amazon Fire TV Stick*, *Amazon Fire Phone*, and various shipping options, Amazon is targeting consumer products in addition to its traditional service.

Kindle Scout is a reader-powered publishing platform, to more authors and readers across the world. *Amazon Fire TV Stick*, a device that helps TV connect to Media Applications instantly, has been competing mainly with *Apple TV* and *Google Chromecast*. *Amazon Fire Phone* is also striving to enter the smartphone market, with its two major competitors - Apple and Samsung. Amazon also has been offering its users *Amazon Prime*, which allows access to one or two-day free shipping. In order to do this, Amazon has acquired large storage houses and lockers at different places where goods are stored.

Vertical and Horizontal Integration: Amazon is also testing their drones for short-range delivery method. This reveals the company's desire to acquire its own shipping facility in the short future. Amazon even collaborates with many big companies, and has announced a deal with the British Library during 2004. The benefit is that customers can search for rare or antique books (Amazon SWOT). This library's catalogue of published works has details of more than 2.5 million books. This acquisition to Amazon will be supplementing the company's core growth and assure horizontal integration. According to callisto.ggsrv.com, during 2015, Amazon had acquired Elemental Technologies, Inc., which is a major provider of software-defined video solutions for multiscreen content. This vital company "has over 700 media franchise customers and serves some of the world's most popular over-the-top TV (OTT) applications. Also, through the acquisition of Twitch Interactive, Inc., a provider of video game streaming, Amazon attempts to integrate more users into new kinds of operations. Furthermore, Amazon "acquired comiXology, which revolutionized the digital comics reading experience, with their immersive Guided View technology" (Amazon Financial and Strategic Analysis Review).

Amazon's Threats

Brick-and-mortar & E-Commerce: Due to Amazon's size, in which it operates, its domain of competition is very large. On the retail side of Amazon, it has to compete with many big Brick-and-Mortar stores with the likes of Wal-Mart, Target, Best Buy, and others. Amazon has normally done well against these competitors, but with the better use of logistics to keep overhead down, and price matching of Amazon's products, the threat of Brick-and-Mortar stores cannot be understated. While Amazon was one of the early online stores, similar new online stores have risen like Overstock.com. One of the world's largest E-Commerce sites is Alibaba, with a market cap of 246.02 Billion, it is only second to that of Amazon, which has entered into the U.S. marketplace (Macauley, 2015).

Regulation: Amazon has lost its regulatory advantages, where consumers did not have to pay sales tax on their products. States like California have closed this loophole, and have leveled the playing ground with traditional brick-and-mortars. With Amazon being a technical innovator, some of the new technologies that might give it a competitive advantage can run into regulatory problems, like using drones for delivery (Lifsher, 2012).

Wal-Mart SWOT Analysis

	Pros	Cons
	Strengths	Weaknesses
Internal	Largest retailer in the world Cost Leadership	Employment policy & poor customer service Litigations affecting reputation
	Opportunities	Threats
External	Growth in internet retail Private label strategy	Increasing labor and health care costs Competitive Pressures

Wal-Mart Stores, Inc. is the largest retail in the world. The company's operations consist of three segments: Walmart U.S., Walmart International, and Sam's Club. Wal-Mart stores offer groceries, entertainment, hardlines, health and wellness, apparel and home goods.

Wal-Mart's Strengths

Largest retailer in the world/Cost leadership: Wal-Mart has a strong presence in the U.S. and in 26 other countries. The company has also expanded its global e-commerce presence. In the fiscal year 2015, the company reported revenues of \$485,651 million and had an operating income of \$27,147 million. Furthermore, during the fiscal year 2015, the Company and its subsidiaries employed 2.2 million employees and reported revenues of \$485,651 million. Being the largest retailer in the world, gives the company market power over suppliers and competitors. This competitive advantage generates positive economic returns and allows the company to offer cheaper prices (Wal-Mart Stores, Inc., 2016).

Wal-Mart's Weaknesses

Employment Policy /Litigations: Wal-Mart relationship with its employees is not the most ideal. For years Wal-Mart employees have complained about low wages, poor working conditions, and no guarantee of sufficient work hours. All these complains lead to high employee turnover, understaffed stores, and poor customer service. Wal-Mart has faced several charges and lawsuits with respect to labor relations. Between 2005 and 2015 the company settled over 70 state and federal wage-and hour lawsuits. These settlements caused the company large amounts of money, have tarnished its reputation, and may put the company in a competitive disadvantage because skilled workers would prefer to work for the competitors.

Wal-Mart's Opportunities

Growth in Internet Retail: According to the US Department of Commerce, online retail sales in the US increased from \$169.3 billion in 2010 to \$297.4 billion in 2014. Total retail sales only grew by 3.6% while e-commerce accounted for 6.4% of retail sales in 2014 (Wal-Mart Stores, Inc., 2016). With the increasing and stabilizing internet presence of Walmart.com, the company can partake into the internet buying trend, and increase its digital net profits and market share.

Private labels: Wal-Mart offers a large selection of private label products under various brand names. Private labels are cheaper than national brands so they attract customers who are looking for quality and low price. The increasing acceptance of private labels will help the company increase sales and improve its profit margin. Also, since these brands are only sold at Wal-Mart, it differentiates the company giving it a competitive advantage.

Wal-Mart's Threats

Increasing labor and healthcare costs: The labor costs in the US have risen due to increased healthcare and wages costs. With 2.2 million employees, the increase in payroll expenses could negatively impact the company's profitability.

Competitive Pressures: Wal-Mart faces non-traditional competition from online retailers like Amazon. The number of consumers who purchase online continues to grow because shoppers are constantly looking for better deals and more choices. As the price war between online retailers and brick and mortar stores intensify, retailers must change their marketing strategy to remain competitive. Ultimately, intense competition could weaken Wal-Mart's competitiveness and lead to loss in their market share (Wal-Mart Stores, Inc., 2016).

EBay SWOT Analysis

EBay, Inc. is an international online marketplace with a global customer base of 233 million. It is a multibillion business operating in 150 countries. There are millions of items listed on EBay across multiple categories, from antiques, books, computers, toys, to even sports. It is estimated that the current revenue of EBay is \$8.59 billion with profits of \$2.60 billion (EBay SEC Filings, 2015).

	Pros	Cons
Internal	Strengths World's Largest Online Auction Website Power of Customer Relationship	Weaknesses Controlling Fake / Illegal Activities Penetrating Some Foreign Markets
External	Opportunities Continued International Expansion Growth in Mobile Shopping	Threats Increased Online Trading Sites Exchange Rates

EBay's Strengths

World's largest online auction website/Power of customer relationship: Since the mid 90's,

EBay has been growing at a very significant rate. It is estimated that they now have 233 million registered users in more than 150 different countries. EBay currently is at the top of the ranks as the most successful online auction industry. In the United States, about one-third of the population is already registered with the site. EBay's number one goal is to establish a strong relationship with the customers by keeping them engaged. They are figuring out new ways to accomplish that, such as coming up with a Feedback Forum, which allows customers to provide feedback on every item they have purchased. EBay takes pride in making sure all of their

customers are happy, and will go to great lengths to make sure that everything stays intact (Welcome to Our Next Chapter, n.d.).

EBay's Weaknesses

Controlling illegal auctions / Penetrating Some Foreign Markets: There are numerous auctions in eBay who have the intention of scamming their buyers. A good example would be scammers trying to sell packaging boxes, with a fake product, and claiming it to be the real one. Over the years, EBay has taken many precautions to prevent illegal activity on their site. Unfortunately, EBay has no real way to measure the extent of illegality on their site. Penetration in foreign markets is crucial to the success of online auctions. EBay has done an outstanding job of penetration in foreign markets. However, they have been unsuccessful in taking over one of the most important foreign markets, like Japan. If EBay is not able to gain ground in growing online markets, it could hurt its foreign market standing (Johnson, n.d.).

EBay's Opportunities

Continued International Expansion/Growing Number of Mobile Shoppers: As internet use continues to grow throughout the world, eBay must take every opportunity to enter desirable international markets. Another thing to consider is the new market which is developing in countries such as China and India. This would allow EBay to further their marketing strategy in different situations, and allow buyers and sellers from different countries to develop their own market. EBay also has a strong payment system using PayPal, which is widely used by many online retailers and online shoppers. The growing number of mobile shoppers will ultimately benefit both eBay and PayPal (Kucera, 2013).

EBay's Threats

Increasing Number of Online Trading Sites/Exchange rates: When an industry is attractive, new competitors will always try to enter and gain market share. EBay already has many competitors like Amazon.com, ePier and uBid. To sustain a competitive advantage above their competitors, eBay must continue to grow and evolve in the online auction industry. EBay also receives income from foreign operations. The profits which are sent back to the U.S. needs to be converted and may be affected by the exchange rates.

Customer Analysis

Amazon.com holds a huge broad market of various costumers, most of who fall within the Generation X era, then trailing Millennials. Surprisingly, it's most loyal consumer base have been from Baby Boomers. Baby Boomers alone have more prime buyers than non-prime buyers. A CBS News report even states that Amazon's shoppers are "older, wealthier, better-educated..."

Segmentation

Online shoppers can be segmented into different age groups with overlapping needs and wants. The younger generations like that of Generation X and Y spend more time shopping online according to business Insider. (Refer to Exhibit 1) "45% of millennials spend more than an hour a day looking at retail-oriented websites" (Krueger, 2013). Millennials also spend the most amount of money per Internet user, followed closely by Generation X.

Customer's Wants and Needs

Millennials take a different approach to satisfy their wants and needs. They heavily use technology, and are influenced by it. By looking at the statistics, "52% of millennials were more likely to make impulse purchases than any other generation," and 46 % of millennials said buying technology is a category that gives them great pleasure. (Israel Diamonds Oct. 2014) "60% of millennials say that it is convenient to have a smartphone or tablet to research or

purchase a product or service on the go” (American Millennials: Deciphering the Enigma Generation, 2016). 45% of millennials spend more than an hour a day looking at retail-oriented websites” (Krueger, 2013). Both Generation X and Y have kids, who like their parents are also technology oriented. With the primary child-bearing ages of 20 to 34 years of age, there are common needs that come with having children. One of these is the constant need of attention and someone to interact with, which is very important part of their social development skills. With the advancement of technology integration, these needs can be met. Kids will finally be able to learn a wide variety of skills just from engaging with these devices.

Current Market and Target Market

The current market that Amazon is consistently growing in is the technological market, while also expanding its inherited broad customer base that comes from being the largest online retailer. More specifically, since Amazon serves a broad market and holds a large brand recognition, it provides them opportunities to enter established markets to compete in, such as the tech industry. An example would be *Amazon Echo* that is meant to compete with Bluetooth speakers, or their *Fire* line meant to compete with tablets. Additionally, Amazon has always served the needs of readers by offering books in many versions from renting to buying full kindle copies. An article in Publishers Weekly mentions how Amazon has been a big winner for obtaining former Barnes & Noble’s customers, which can be credited to the rise of eBooks and their technological investments in that area. Since brand recognition has brought them many loyal customers, and one such area that they can strategize in would be choosing a target market.

Educated opinion

In our educated opinion younger generations are the target market strategy that Amazon can strive for, in order to fill their market gap. Amazon needs to start brand recognition earlier, in

order to build loyalty customers sooner. The sooner customers become loyal, there is a better probability of gaining new Amazon Prime members. To do this, Amazon needs to create a product that meets both parents and children needs. After product introduction, Amazon can begin building variety, and entering new markets in that industry.

New Product

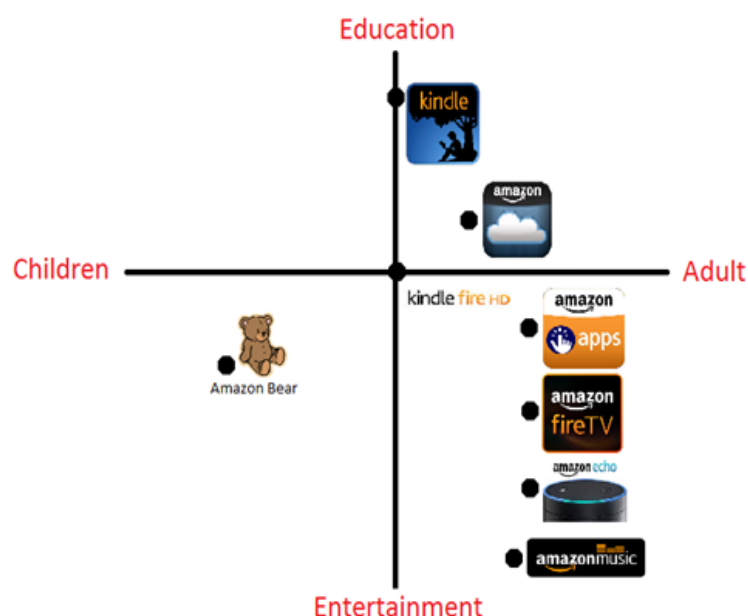
Looking at all the factors of potential markets, and market segmentations, in combination with leveraging amazon's already existing services and devices, we believe to best meet the gap is a child's toy. This will instill brand recognition very early for younger generations, where it will be used to benefit parents too, by making their lives easier.

The “Amazon Bear” will continue Amazon’s business strategy of branding devices that will connect to people’s lives. The bear would be a complimentary item to go along with amazon’s already existing products like the *Amazon Kindle*, *Echo*, and *Fire* line. The increasing technological lifestyles of consumers in this generation are pushing manufacturers to develop smart and engaging electronic toys. As an example, App integrated toys that can be controlled by smartphones and tablets are now emerging on to the market.

When the parent buys the product from the Amazon store and opens the box, it includes very easy and detailed instructions on how to download the “R We There Yet?” which can be downloaded from their smartphone or kindle devices. After they download the required app, they can then use a button that is in the app to sync the phone with the bear (Refer to Exhibit 2). After the phone is synced to the bear, the parent can have the option of typing in the starting point and destination of the trip they are taking. Once they are finished, the bear will sync and recognize the commands via Bluetooth, and then it will proceed on to say certain things to the child once

its paw is pressed. The first thing that the bear will say is how long it will take to get to the certain destination, which will prevent the child from asking the parents (refer to Exhibit 3). The AI technology of Amazon bear will come from a modified version of *Amazon Echo* with using Amazon's cloud servers. The synergy of using existing resources will not only make the product easy to use due the familiarity, but it will also be a gateway to selling more products and amazon services. The bear will be able to download books via a 4g modem like what already exists in Amazon's *Kindle* that uses a large library. It will also be connected to the Amazon app store that will include games and music that the parents can buy, download, and sync. This way the bear will never run out of things to say as long as the parents are updating it.

Perceptual map



Product

Within the past decade, computationally-enhanced toys have become a staple of children's environments. In large part, this is due to the small size, robust operation, and low cost of embedded computing that enables electronic devices to be included within toys of all descriptions. The software app lets you operate your bear using a smartphone or tablet.

Product Specifications:

- Embedded Bluetooth receiver
- Built in microphone and speaker
- Connects with smart phone or tablet
- Use as portable wireless speaker
- Extended battery life
- Auto On/Off to save power
- Soft fabric with creative design
- Use as Bluetooth speaker phone
- Plays, songs, music, lullabies and your baby's favorite music
- USB charging with rechargeable battery
- LED status indication
- Plays your baby's favorite stories and eBooks

Kindle - The Amazon bear is situated between an educational and entertainment item for the kids with the potential to be only one of the other at the discretion of the parent. Of the toy bears on

the market, none of them have near the technological capabilities or depth that the Amazon Bear provides

Software - Most of the function of the bear will come with Android OS that runs other amazon products along with its connection with the cloud. While the parts of the bear do not cost a lot of money, due to the perceived value being more compared to the price of the product. The main value of the product comes from being connected with the amazon ecosystem.

Camera - The camera can be used with different apps and games along with it functioning as a nanny cam for the parent to log into and check in with the child.

Microphone - The microphone will be integrated within, and will take information such as commands and vital information for running programs.

The Amazon Bear will appeal to its target market through its ability to connect with parents and children through interaction and convenience. As more and more parents work longer hours, especially as women make their way through the corporate environment, and up the corporate ladder; less time is given to kids. This is apparent with Amazon Pantry, where parents don't go out to the store to buy groceries. The Amazon Bear takes advantage of this by filling the "generational time gap" with entertainment for the kids, and a way for the parents to monitor the kids at the same time.

Because of the product working and connecting within the Amazon portfolio we expect to see a positive benefit to the rest of Amazon's products like that of increase sales, and value of other Amazon products.

Pricing

The pricing strategy of the Amazon bear, like many other amazon products, will be penetration pricing and bundling pricing. Being that this item like other amazon products is not a necessitous item, the market will be price sensitive. Much of the value to Amazon comes from the bear's connection with its other Amazon products, and the potential to bring in revenue with it being a complementary good.

In order to keep the production cost low, and the end retail price competitive the Amazon bear will be manufactured in China along with the current line of Amazon products such Kindle and Amazon Echo.

The Amazon Bear is an enhanced teddy bear which has the ability to talk and transfer information electronically. Using penetration and bundle pricing, we will sell the product at \$99. This type of pricing is consistent with Amazon selling strategy of penetration pricing for their other products. Furthermore, Amazon bear has the option to be connected to the Kindle and be controlled by it. This gives Amazon the advantage of bundle sale and bundle pricing which helps with increase revenue. It will assist Amazon in selling their other products such as Kindle and Amazon Prime.

Although the \$99 is cheap enough to penetrate in the market, it is also high enough to cover the cost of producing the product. We have estimated the cost of producing the product by pricing each part of it as the following:

1. Microphone: \$15
2. Camera: \$12
3. Teddy Bear: \$15

4. Software: Included in Amazon prime subscription. (Free)
5. CPU and motherboard: \$15
6. Promotion: \$20
7. Fixed cost: \$15

The sum of the costs for all the variable parts including the promotion and fixed cost, will be \$92. Therefore, selling the Amazon Bear at \$99 will cover the cost and result in \$7 profit per unit. The return on sales will be very low for the first year at a rate of 4.04%, which will be necessary for penetration pricing. As unit sales increases over time so will the return on sales due to economies of scale.

Promotion

In order to reach our targeted consumers for the Amazon Bear, the most beneficial marketing mix would be through advertising and direct marketing. Since the Amazon Bear will be the first major multi-utility product for parents and kids, it will require great awareness and direct communication in order to successfully market it.

By using advertising first, it will allow the Amazon Bear to be marketed to the mass market in order to create the exposure that it needs since it is a specialty good. This will allow the product to be reached to a large number of people in order to compensate for the hesitation that will arise from its initial launch. The purpose of advertising, in this case, would ultimately be to appealing to early adopters.

With direct marketing, the Amazon Bear will be better able to become more personalized into the consumer's family. Through communication and creating a positive message that both

parents and their kids can mutually enjoy, the Amazon Bear will be effective in receiving a better outlook and impression. This element is ideal since the product would need to ensure that its reaching the correct audience while having the flexibility to market to other specific groups when available.

Strategies with Advertisement

Online Ads: Through Amazon's very own website, it can design a special video on the homepage that will help introduce the product and encourage pre-orders. The company can then put its effort in displaying the product link in the first page of the search engines in order to help guide customers directly to the product. Online coupons can also be issued through social media to create incentives. This element can be taken immediately and it's expected to reach the general public. The cost would be very low.

Commercials TV/Online: Amazon can communicate about the product and its features to parents and children in all major cartoon and family network channels. Commercials can even extend online through Hulu.com and even in Amazon's Prime video services to stimulate public awareness. Kindle or associated apps can also begin having pop-ups about the product to obtain interest. Under this promotional element, it emphasizes a targeted approach either to parents and kids or Amazon / online users, which will take a month to develop commercials. Mixing Online with traditional TV commercials will help keep the marketing cost down, but still providing the visual advantages that come with commercials.

Social Media: Since Amazon already has social media accounts aimed at students, the same concept and strategy can apply for kids and parents. Twitter, for example, can significantly provide advantageous about the product, to get immediate response by using hashtags. Instagram can begin creating a message of friendship and thoughtfulness by posting pictures of kids

enjoying the product or happy parents interacting with their children while using the bear.

Facebook can then be the main source of information, feedback, and advertisement by interacting with customers and creating interest through likes. This will reach the target market through its abilities of tagging and sharing interests, and can be done immediately. Social media like other online promotions make the marketing budget dollar go farther.

Event Sponsorship: Since the Amazon Bear is meant to build a connection, Amazon can hold charity events and host school events that benefit children and parents. This can lead to a buzz in the news that can help spark its launch. Not only will this allow a positive message about the product, but it allows people to actually physically see and test it. This is the best approach to reach the target market, but it is also the longest due to planning events ahead of time.

Strategies with Direct Marketing

Electronic mail: Amazon can begin sending mass emails or letters that offer coupons to both prime and nonprime customers in order for people to take advantage of it before its launch to encourage pre-orders. Similar to catalogs, coupons will reach the target market, but will be shorter to implement since it's a simple coupon. Due to having such a large customer base amazon will be able to reach a lot of people. The cost of this will be very low.

Direct Kiosks / Tables: One way that Amazon can be successful, is to directly have the product available at places where parents or kids go to. From here, Amazon can have their sales team target and provide information to interested customers that pass by. This approach to direct marketing is the best, but will take a month or two to develop and coordinate with the sales team to find the best places to do target sales, and get permission from those locations.

Bundling: In order to increase revenues, Amazon can consider bundling Amazon Bear with other associated product line. The idea of bundling is to attract more consumers with a

combination of two or more products with lower sale price. More importantly, consumer feedbacks must be carefully treated in order to have an effective strategy of bundling. Amazon Bear can be bundled with Amazon Echo -- a hands-free speaker that plays music, news, weather, and others by voice command (Amazon, 2016) -- as parents may choose to purchase the Echo for their own use. Additionally, the primary consumers children can have Amazon Echo amplify the content from Amazon Bear. However, it is important that consumers have positive feedbacks to the bundle offering, meaning an increase in revenues. The feedbacks can help identify if the pricing of the bundle is effective, or if the associated product is a good choice to bundle with Amazon Bear. By integrating different promotional and advertising strategies through different mediums, Amazon solidifies reaching its target audience and increase its sales force. Online ads reach out to online users. Commercial TV shows reach out to a TV audience, and electronic mail reaches out to all Amazon customers. Furthermore, bundling will help to increase the sales and revenue by lowering the initial cost to the consumer, putting out more Amazon products into the hands of the consumers, who in return will consume more of Amazon's electronic offerings and products.

Place (Distribution) Strategy

Amazon will primarily use a direct distribution channel to make the Amazon Bear available to customers. The bear will be sold directly to the consumer instead of using traditional layered distribution systems that uses wholesalers to sell to retailers. This distribution method will generate higher profit margins because Amazon will not need to share the profits with intermediaries. Additionally, distribution via internet is convenient for customers because the product will be available 24 hours a day. Direct selling will also help Amazon develop a stronger customer relationship. Customers will provide accurate and instant feedback about their

satisfaction or dissatisfaction with the product. Customer feedback will be instrumental in continuous product improvement as well as new product development.

The selective distribution strategy will also be an effective way to increase market coverage while still controlling and reducing costs. Since the Amazon Bear is an educational and an interactive toy, Amazon will distribute the bear to Build-A-Bear Workshop brick and mortar stores. Build-A-Bear operates the only stores which have a teddy bear themed environment. Build-A-Bear targets young children who come to the store to make their own personalized and customized stuffed animal (Build-A-Bear Workshop, 2013). By purchasing the Amazon Bear through Build-A-Bear, children will be able to customize their new friend who will talk and interact with them during long trips, bedtime, and while their working parents are away from home. Amazon and Build-A Bear will both benefit from this cross promotional venture.

Amazon's benefit will be from having a location where people can touch, and see the bear in person in many more locations than what Amazon has now. Build-A-Bear Workshop will also benefit from increased sales due to having a computerized bear instead of just a traditional stuffed animal. According to Industry estimates, the retail toys sales in the United States have decreased due to the growing popularity of mobile devices used by children (Build-A-Bear Workshop, 2013). The bear will also be distributed to selective toy stores like Toys R Us, Target, and Wal-Mart.

Financial Data and Projections

Given that total Kindle Fires that were sold between 2007-2013 were 43.7 million (6.24 million per year), we estimate that the Amazon Bear's total sales will project to be 3.5-4 million for the first year (Team, 2014). This projection is conservative because of it being an initial launch. As the product makes its way into the market like that of its brother product the Kindle, demand will

increase as it goes through the introduction, growth, and finally at its end of the financial projection at maturity stage. (Exhibit 4) While the Return on sales will be very low for the first year 2017 at 4.04% it will be necessary for penetration pricing, and as unit sales increase over time so will the Return on sales due to economies of scale. The return on sales will reach 7.07% in the year 2021. Doing a Break-even analysis Amazon would need to produce 2.6 million units to cover the fix cost of 60 million. (Exhibit 5) Currently, Amazon's financing option only allows Amazon cardholders, 12-month special financing with no interest when a purchase is \$599 or more is made. As Amazon Bear is \$99, financing option could be 5-month with no interest.

Organization

Amazon's organizational structure is comprised of the board of directors and the CEO and founder Jeffrey Bezos. The CEO oversees the Senior VP Chief Financial Officer, the Chief Technology Officer, the Senior VP Human Resources Officer, and the following divisions: Business Development, Web Services, National and International Consumer Business, Legal department, Secretary, and Accounting. The North America Retail Division oversees the following departments: Seller Services, Operations, Toys, Sports, Home Improvement, Amazon Publishing, Music and Video. In the North America Retail Division, under the toy department, we will add the Amazon Bear business unit. Under Jeffrey A. Wilke, we will add a new position who is in charge of the toy department. We recommend the creation of an executive level position reporting to toy department manager who will oversee the development process of this new product. He or she will have other direct reports who will be responsible for the implementation, marketing, distribution, forecasting, and the training of this new product.



Implementation Plan

To implement our product properly, Amazon will need to focus developing its product image to the public in order to gain pre-orders from year 2017. This initial year in sales is critical in order to have orders to fill for the next year, 2018, when the Amazon Bear is being prepared to ship out. This year also includes physical sales in terms of having online orders. Year 3, 2019, will be concentrating in expanding the markets through different outlets and distributors, with the main focus in carrying out sales and driving demand for our product. The following year, 2020, will consist of analyzing how successful the Amazon Bear has been, and making reports and future forecasts. The product will be revised in the 5th year, 2021, in order to maintain its sales and to keep its position in a competitive market.

Year	Year 1 2017	Year 2 2018	Year 3 2019	Year 4 2020	Year 5 2021
Phase	Development	Preparing	Expanding	Monitoring	Product Revision
Goals:	Pre-Orders	Fulfill/Sales	Sales	Sales	Sales

Gantt chart in the appendixes

Amazon Analysis Exhibits

Exhibit 1

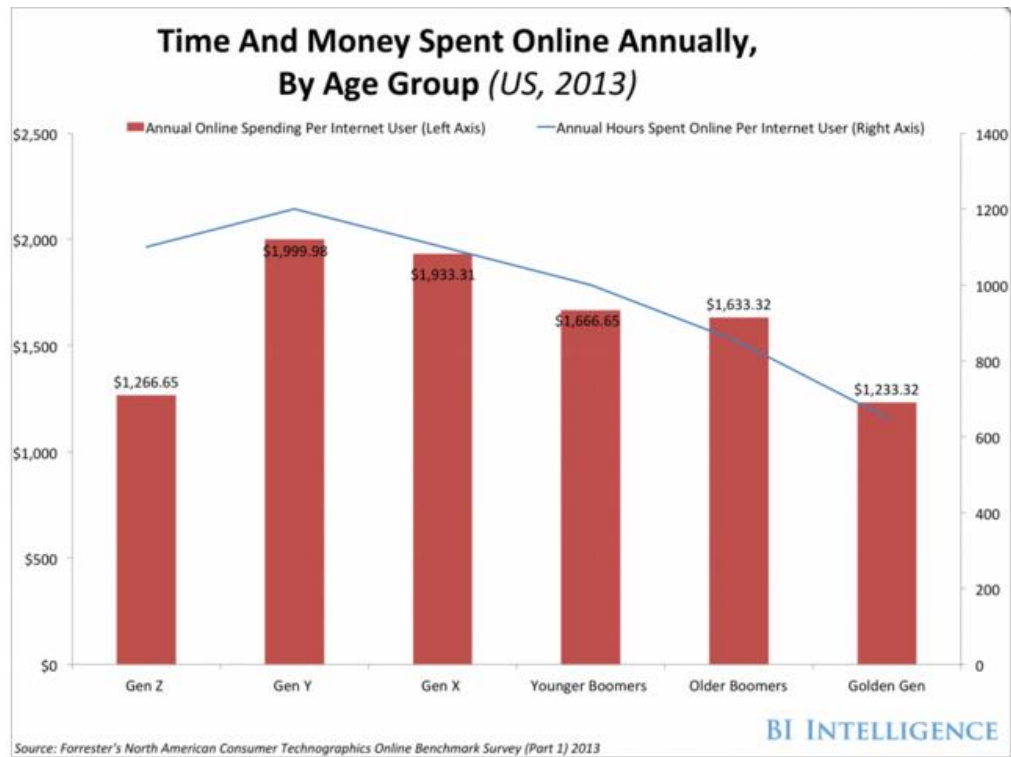


Exhibit 2



Application loads displaying launch screen

Button displays to provide option for additional play packs

Amazon Analysis Exhibits (Continued)

Exhibit 3



When the bear's button is clicked this first time; the bear will say...

Only 61 minutes left! I'll tell you a story.

Once upon a time there was a little girl who wore a red hood...



Exhibit 4

	2021	2020	2019	2018	2017
Sales	\$386,100,000	\$371,250,000	\$346,500,000	\$321,750,000	\$297,000,000
Sales in Units	3,900,000	3,750,000	3,500,000	3,250,000	3,000,000
Cost of Goods Sold					
Variable	300,300,000	288,750,000	269,500,000	250,250,000	231,000,000
Fixed	58,500,000	58,500,000	58,500,000	58,500,000	58,500,000
Gross Profit	\$27,300,000	\$24,000,000	\$18,500,000	\$13,000,000	\$7,500,000
Return on sales	7.07%	6.46%	5.34%	4.04%	4.04%
Break Even	2,659,091	2,659,091	2,659,091	2,659,091	2,659,091

{ Variable cost(\$77) + Fixed cost(15) = Total cost \$92} Break-even units = Fixed cost / (sales price(\$99) - variable cost(87)) = 2,659,091

Exhibit 5

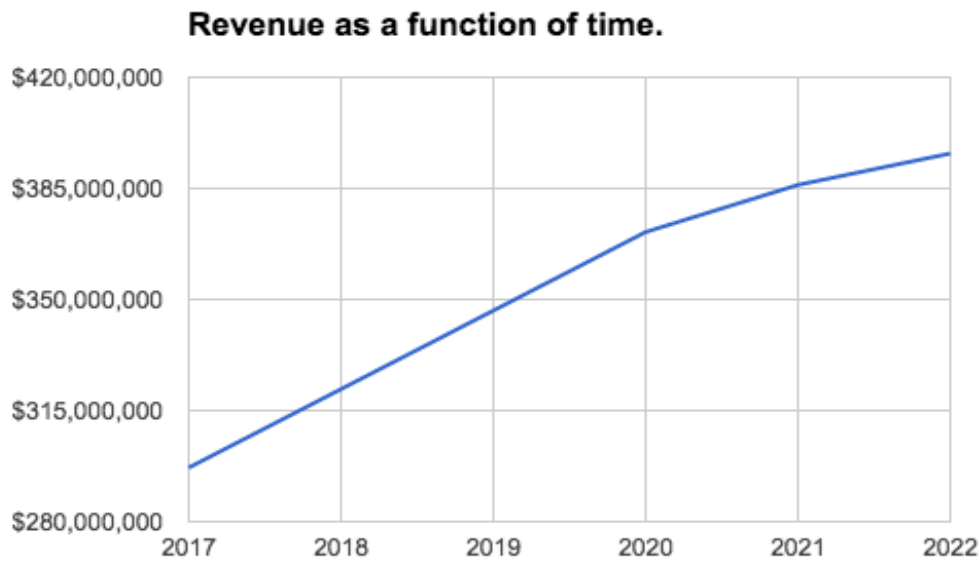
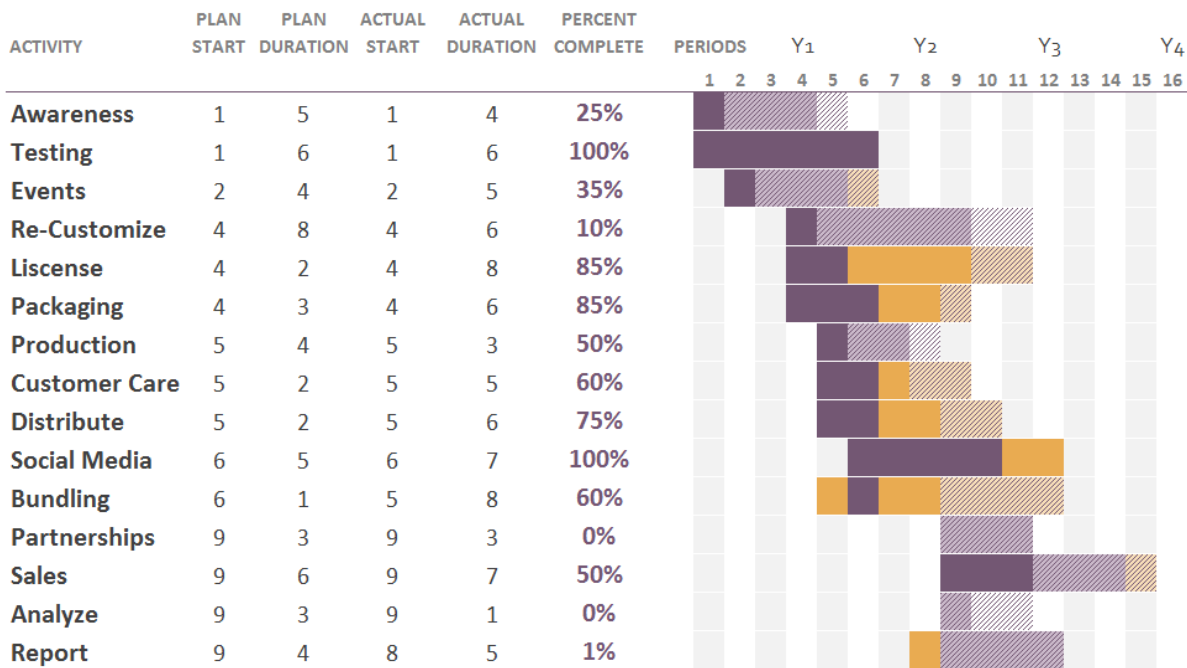


Exhibit 6

Amazon Bear Gantt Chart



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