

- emphasize quality; input from employees regarding ways in which quality can be improved; a methodology for tracing defects to their source and correcting the problems that produce them; a rationalization of the company's supply base; cooperation with approved suppliers to implement total quality management programs; products that are designed for ease of manufacturing; and substantial cooperation among functions.
4. The failure rate of new-product introductions is high because of factors such as uncertainty, poor commercialization, poor positioning strategy, slow cycle time, and technological shortsightedness.
 5. To achieve superior innovation, a company must build skills in basic and applied research; design good processes for managing development projects; and achieve close integration between the different functions of the company, primarily through the adoption of cross-functional product development teams and partly parallel development processes.
 6. Achieving superior customer responsiveness often requires that the company achieve superior efficiency, quality, and innovation.
 7. Furthermore, to achieve superior customer responsiveness, a company must also give customers what they want, when they want it. It must ensure a strong customer focus, which can be attained by emphasizing customer focus through leadership; training employees to think like customers; bringing customers into the company through superior market research; customizing products to the unique needs of individual customers or customer groups; and responding quickly to customer demands.

DISCUSSION QUESTIONS

1. How are the four building blocks of competitive advantage related to each other?
2. What role can top management play in helping a company achieve superior efficiency, quality, innovation, and responsiveness to customers?
3. Over time, will the adoption of Six Sigma quality improvement processes give a company a competitive advantage, or will it be required only to achieve parity with competitors?
4. What is the relationship between innovation and competitive advantage?

CLOSING CASE

Amazon.Com

When Jeff Bezos founded Amazon.com in 1995, the online retailer focused just on selling books. Music and videos were soon added to the mix. Today, you can purchase a wide range of media and general-merchandise products from Amazon, which is now the world's largest online retailer, with over \$85 billion in annual sales. According to Bezos, Amazon's success is based on three core factors: a relentless focus on delivering value to customers, operating efficiencies, and a willingness to innovate.

Amazon offers customers a much wider selection of merchandise than they can find in a physical store, and does so at a low price. Online shopping and purchasing is made easy with a user-friendly interface, product recommendations, customer wish lists, and a one-click purchasing option for repeat customers. The percentage of traffic that Amazon gets from search engines such as Google has been falling for several years, whereas other online retailers are becoming more dependent on third-party

search engines. This indicates that Amazon is increasingly becoming the starting point for online purchases. As a result, its active customer base is now approaching 250 million.

To deliver products to customers quickly and accurately, Amazon has been investing heavily in a network of distribution centers. In the United States alone there are now over 40 such centers. Sophisticated software analyzes customer purchasing patterns and informs the company what to order, where to store it in the distribution network, what to charge for it, and when to mark it down to shift it. The goal is to reduce inventory-holding costs while always having product in stock. The increasingly dense network of distribution centers enables Amazon to reduce the time it takes to deliver products to consumers and to cut down on delivery costs. As Amazon grows it can support a denser distribution network, which it turn enables it to fulfill customer orders more rapidly and at a lower cost, thereby solidifying its competitive advantage over smaller rivals.

To make its distribution centers even more efficient, Amazon is embracing automation. Until recently, most picking and packing of products at Amazon distribution centers was done by hand, with employees walking as much as 20 miles per shift to pick merchandise off shelves and bring it to packing stations. Although walking 20 miles a day may be good for the physical health of employees, it represents much wasted time and hurts productivity. In 2012, Amazon purchased Kiva, a leading manufacturer of robots that service warehouses. Post the acquisition, Kiva announced that, for the next 2 to 3 years, it would take no external orders

and instead focus on automating Amazon's distribution centers. Kiva robots pick products from shelves and deliver them to packing stations. This reduces the staff needed per distribution center by 30 to 40%, and boosts productivity accordingly.

On the innovation front, Amazon has been a leader in pushing the digitalization of media. Its invention of the Kindle digital reader, and the ability of customers to use that reader either on a dedicated Kindle device or on a general-purpose device such as an iPad, turbocharged the digital distribution of books—a market segment where Amazon is the clear leader. Digitalization of books is disrupting the established book-retailing industry and strengthening Amazon's advantage in this segment. To store digital media, from books to films and music, and to enable rapid customer download, Amazon has built huge server farms. Its early investment in “cloud-based” infrastructure has turned Amazon into a leader in this field. It is now leveraging its expertise and infrastructure to build another business, Amazon Web Services (AWS), which will host websites, data, and associated software for other companies. In 2014, this new business generated over \$2.5 billion in revenues, making Amazon one of the early leaders in the emerging field of cloud computing. Jeff Bezos is on record as stating that he believes AWS will ultimately match Amazon's online retail business in sales volume.

Sources: “Amazon to Add 18 New Distribution Centers,” *Supply Chain Digest*, August 7, 2012; A. Lashinsky, “Jeff Bezos: The Ultimate Disrupter,” *Fortune*, December 3, 2012, pp. 34–41; S. Banker, “The New Amazon Distribution Model,” *Logistics Viewpoints*, August 6, 2012; G. A. Fowler, “Holiday Hiring Call: People Vs Robots,” *The Wall Street Journal*, December 10, 2010, p. B1.

CASE DISCUSSION QUESTIONS

1. What functional-level strategies has Amazon pursued to boost its efficiency?
2. What functional-level strategies has Amazon pursued to boost its customer responsiveness?
3. What does product quality mean for Amazon? What functional-level strategies has Amazon pursued to boost its product quality?
4. How has innovation helped Amazon improve its efficiency, customer responsiveness, and product quality?
5. Do you think that Amazon has any rare and valuable resources? In what value creation activities are these resources located?
6. How sustainable is Amazon's competitive position in the online retail business?