

Component 1: Coursework: Individual Report

LCBB5010 – Management Accounting for Managers

Student Name –SERGIU CONSTANTIN GRIGORESCU

Student ID – 2233162

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1 Introduction

Amazon is a technology and retail company that is one of the largest and most diversified in the world and has e-commerce, cloud computing, digital entertainment and logistics. It was established in 1994 and it has evolved to be a global organisation that caters to consumers, sellers, developers, content creators and advertisers. The size and complexity of the Amazon business necessitate the use of efficient management accounting-oriented tools to aid in making sound financial judgments. In recent and fast-paced business setups, management accounting is crucial in the analysis of cost, budget, and performance and strategic decisions. In the case of a business such as Amazon that has a significant fixed investment and large volume variable activity, such tools assist the managers to optimise and increase the efficiency and competitive edge of the company. This report discusses the application of management accounting techniques in supporting choices made by Amazon in the cost structures, planning, performance and sustainability.

2 Cost Analysis and Business Model

2.1 Revenue Model

Amazon has a diversified revenue model, which is a blend of e-commerce, subscription services and cloud computing. Its main source of revenue comes through online retail business in the following segments: electronics, home goods, apparel and digital media. Third-party seller services are also a strong source of revenue generation at the company, with the independent merchants taking advantage of Amazon by paying referral fees, fulfilment, and advertising fees (PV Vyshnavi, 2025). One of the key elements of Amazon's revenue model is Amazon Web Services (AWS), which offers cloud infrastructure and software to businesses all around the world and brings a significant share of operating profits. Moreover, subscriptions and services offered by Amazon, especially Amazon Prime, generate a continuous flow of recurring revenues due to subscription fees, as more people are encouraged to stay longer and frequent their buying patterns. Another source of revenue is also the fact that advertising services are now another source of income, with brands looking to advertise their products in the Amazon marketplace.

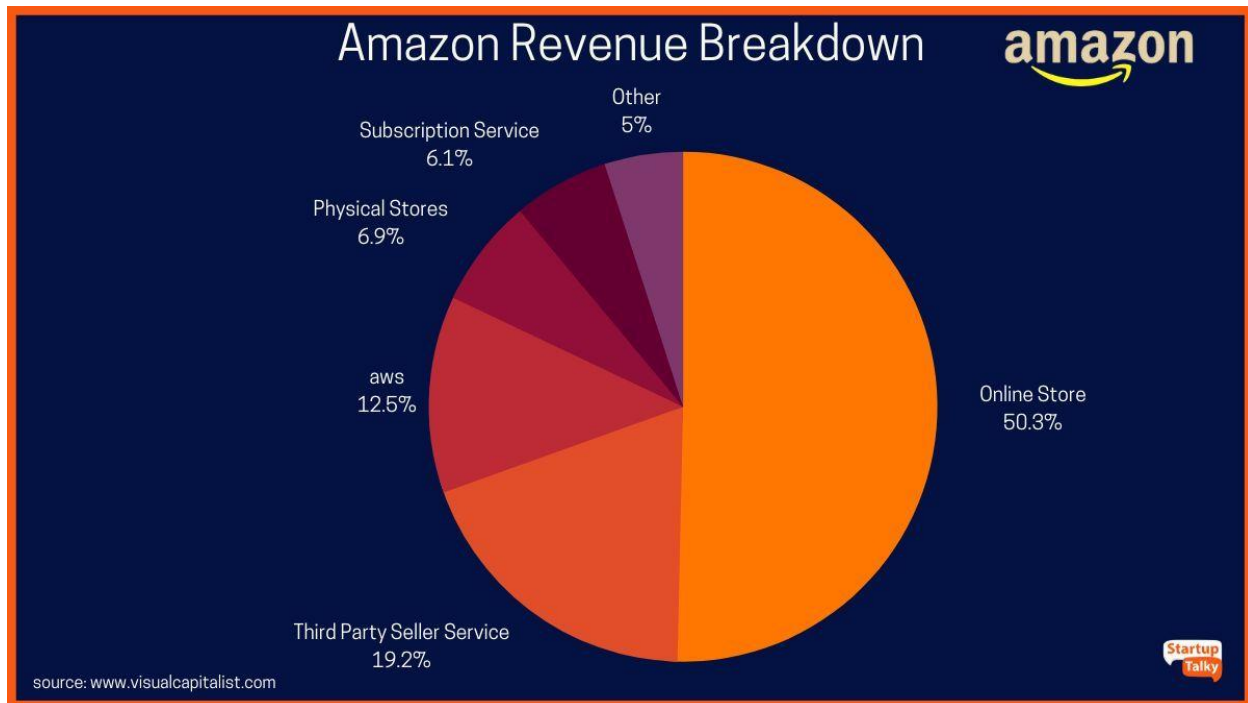


Figure 1: Revenue Model of Amazon; (Source: PV Vyshnavi, 2025)

2.2 Key Cost Structures

The cost structure of Amazon is wide because of the scale and complexity of its global operations. The company accrues high fixed expenses, particularly in technology infrastructure, fulfilment centres, robotics, office facilities and worldwide logistics networks. These are costs that are inevitable and are relatively constant irrespective of the levels of sales. Amazon also spends a lot of money on software development and data centres to facilitate AWS and its digital ecosystem, which also adds to the fixed cost commitments.

Conversely, Amazon has high variable expenses, which vary depending on customer demand and sales. These involve the cost of goods sold (COGS), packing, transportation, payment processing and paying seasonal workers during peak seasons. The variable costs in logistics, including the last-mile delivery, fuel charges used in transport and third-party arbitrage charges, also escalate with the volume of orders. Marketing expenditure is also among the variable costs where Amazon can vary advertising expenses based on market factors and product category.

In sum, the business model of Amazon depends on the application of the economies of scale: distribution of the high fixed costs among a large customer base and the strict control of the variable costs of operations. This system helps the company to remain at competitive prices, to facilitate fast delivery service and be profitable in the long term in the diversified portfolio (Chen, 2021).

3 Budgeting and Financial Planning

3.1 Role of Budgeting in Amazon's Operations

The key aspect of the management of Amazon operations is budgeting which allows managing the large-scale and multi-segment operations. The company has elaborated operational budgets and financial budgets as a planning tool to distribute resources to the e-commerce, logistics, cloud services (AWS), advertising and digital content. Budgeting also facilitates such strategies as inventory planning, capacity building and investment in technology infrastructure, which assures that the business segments require appropriate funding to satisfy the demand levels (Batt, Rikhardsson and Karlsson, 2021).

The budgeting process at Amazon is a blend of rolling budgets and long-term capital budgeting and thus, it allows flexible decision-making in a rapidly evolving retail and technology environment. Rolling forecasts enable managers to revise an approximation of financial expectations on an ongoing basis because of real-time information, which creates responsive moves to market dynamics (Tegelberg, 2024). Capital budgets are used for long-term investments in fulfilment centres, transportation fleets, robotics and AWS data centres. These budgeting tools provide orientation of performance between operations and strategic growth and customer demand establishment.

3.2 Analysis of Operating Expenses: Internal and External Influences

Amazon registered an 18.33% yearly rise in the operating costs (Google Finance, 2018). This increase is an amalgamation of both the internal management choices and external macroeconomic variables.

On the internal side, Amazon has been broadening its logistics system and investing faster in automation, AI-based supply chain technology and warehouse robotics. Such projects raise the operating costs in the short term but should help to raise efficiency in the future and the speed of delivery. Other internal drivers of costs are increased employment in the areas with high demand, increased expenditure on marketing and further investment in the infrastructure of AWS which will facilitate increased growth of the global cloud services.

According to the external factors, the macroeconomic factors played a key role in increasing the expenses. The high price of fuel and transport costs augmented delivery and logistics spending. Higher wages, utility costs and supplier costs were caused by inflationary pressure, particularly in the United States and Europe. Moreover, higher costs of compliance with regulations, especially the cost of data protection and sustainability reporting, also contributed to the operating costs.

Generally, the 18.33 percent increase in operating cost indicates that Amazon continues its investment in the idea of scale, innovativeness, and velocity as weighed against economic forces outside the business competing to transform retail and logistics operations globally.

4 Performance Measurement and Decision-Making

4.1 Key Performance Indicators (KPIs)

Amazon has both financial and non-financial KPIs to assess performance in its international activities.

1. Total Revenue Growth

Amazon reported a year-on-year growth in its total revenue of 11 percent, from \$575 billion to 638 billion in 2024. This KPI shows the success of the multi-segment strategy of Amazon and maintains the demand throughout North America, International markets, and AWS.

Amazon's Annual Revenue (\$, Billions)

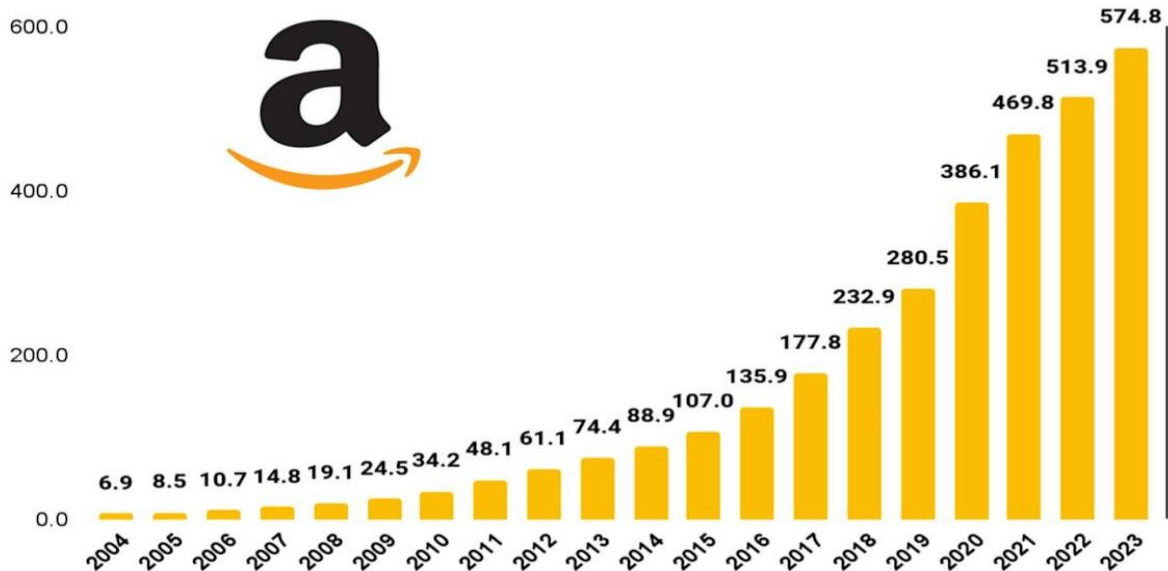


Figure 2: Revenue Growth of Amazon; (Source: Di, 2024)

2. Operating Income and Margin

Operating income improved tremendously by 86 percent, as operating income increased by \$36.9 billion, to \$68.6 billion, and operating margin improved to 10.8 percent (Annualreports.com, 2024). This KPI is an indicator of better cost management and efficiency increase and increased profitability with the help of AWS and operational restructuring in the retail segment.

3. AWS Revenue Growth

AWS continues to be a strategic KPI because it is the most profitable business unit. AWS revenue grew 19%, from \$91B to \$108B in 2024. Such growth indicates the demand in cloud computing, AI infrastructure and data-inspired services.

4. Free Cash Flow (Adjusted)

Amazon had a free cash flow of \$36.2 billion, which is marginally higher than in 2023. This KPI reflects improved liquidity and sustainability of financial performance over the long term and will give the company an opportunity to invest in infrastructure and innovation.

5. Customer Policy Metrics

Non-financial KPIs are the speed of delivery, product availability, and performance in the Prime membership and the performance of the next-day/same-day fulfilment. A record shipping speeds among the Prime members and the increased variety of products is emphasised in the annual report, which reflects the customer-oriented approach of Amazon in due regard of convenience and satisfaction. These measures have a heavy impact on retention and repurchase behaviour.

4.2 Strategic Decision-Making Based on KPI Insights

A number of significant strategic decisions have been informed by performance data. The huge increase in operating income and margin stimulated Amazon to increase further automation, warehouse robots, and AI-based logistics optimisation. In the meantime, the increase in AWS revenue is causing companies to invest more in next-generation AI like Amazon Bedrock, Trainium2 AI chips and new infrastructure that will enable expansion of AI use within enterprises.

In the retail business, KPIs of customer experience, as well as reduced delivery times and reduced shipping expenses, have been the main drivers of the further regionalisation of fulfilment networks to be acquired by Amazon. Record Prime's involvement affected the choice of increasing the entertainment content, sports streaming rights, and devices.

Altogether, the KPI-based strategy used by Amazon allows evidence-based decision-making to facilitate coordination between the efficiency of operations, value creation to the customers, and long-term strategic development.

5 Sustainability and Ethical Considerations

Amazon incorporates sustainability in its financial decision-making process by associating the long-term investment strategies with environmental responsibility and operational efficiency. One

fundamental aspect of sustainability strategy at Amazon is the company achieving carbon emissions reduction by using its delivery market driven by electrification of the new transportation, increased usage of renewable energy, and package efficiency (Aboutamazon.com, 2024). Such sustainability efforts can affect the decision of capital allocation whereby large amounts of money are spent on technologies like electric vehicles, energy-efficient fulfilment centres, and renewable energy infrastructure. Such initiatives are not only beneficial for achieving environmental goals, but they also provide long-term cost-efficiencies in areas such as fuel expenses, wasted materials and increased resilience of the supply chain (Raza et al., 2024).

Cost management and pricing of Amazon are also based on ethical considerations. Transparency and customer value are highlighted at the company, as its competitive pricing and responsible attitudes to the consumers have been an essential aspect since time immemorial. The ethical management of cost includes preventing exploitative links with suppliers, sustainability with labour and safety standards together with the integrity when sourcing products. Amazon is also making continued investments in worker safety technologies, ergonomic tools, and training programmes to better the workplace environment in its fulfilment network. Such choices are a compromise of cost responsibility and ethical accountability.

In addition, the growing aspect of artificial intelligence and automation improvement in Amazon is supported by ethical issues of job loss, the use of data, and privacy. The firm's policies and compliance models are designed to make sure that AI is used responsibly and the company complies with the international data protection regulations.

All in all, the financial decision-making process of Amazon is determined by sustainability and ethical considerations, which drive the cost structures and operational frameworks, and long-term strategic investments, giving priority to responsible growth and stakeholder values.

6 Conclusion and Recommendation

Altogether, the Amazon experience of managing accounting shows that financial instruments, operational data and strategic information become mutually beneficial to make a decision in a complex multinational organisation. With the logistics being the driver behind the cost structure in the company, technology and fulfilment mandate, the company must constantly analyse the cost

structure to keep it efficient to support growth. Budget and financial planning make it possible for Amazon to react to internal growth requirements and external macroeconomic dynamics, and key performance indicators (KPIs) assist in helping make strategic decisions in specific areas, including automation, cloud services and experience. Sustainability and ethics also play a role in determining whether to invest over the long term, which could have resonated with the goals of Amazon to be a responsible company. Judging by these results, Amazon needs to further reinforce data-driven decision-making, elaborate on sustainable technologies and enhance transparency in cost management that will promote the subsequent growth and stakeholder value.

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