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Has the arrival of Amazon altered the market structure for consumer electronic goods in Australia?

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**“Has the arrival of Amazon altered the market structure for
consumer electronic goods in Australia?”**

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ABSTRACT

This paper examines market impacts of the entrance of Amazon upon the Australian consumer electronics industry. This market is initially established as already volatile before market disruption by international competition. The nature of Amazon's operations is then evaluated to significantly aid its ability to overcome market entrance barriers. Significant impacts by this entrance is projected on both consumers and retailers of consumer electronics within Australia. Changes in business model are probable if concentration of firm ratio within market is to be secured.

1 INTRODUCTION

This research aims to answer the question:

“Has the arrival of Amazon altered the market structure for consumer electronic goods in Australia?”

Real-world context is intrinsic to the understanding of this topic. The Australian retail industry ‘makes a significant contribution to the economy’¹, employing 1.2 million people, representing 10.7% of total employment and contributes \$53 billion or over 4 per cent of GDP in 2009-10.²

The market segment of ‘Consumer electronics’ is defined to encompass the ‘sale of consumer electronics, for example, radios, TV sets, MP3 players, stereo systems and DVD players. The segment also includes hardware derived from the field of communications electronics, e.g. desktop computers, laptops, tablets and smartphones.’³

Within the larger Australian domestic retail industry, ‘household goods retailing,’ of which electronic goods retailing is classified under by the *Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006*, is valued at \$5.9 billion, representing around 17.4% of total retail turnover in 2017.⁴

In April of 2017, Amazon announced its expansion of operations to Australia, the official launch of the service occurring in November that year. When examining the impacts of this new market entrant, academic context becomes significant, as there are a variety of economic theories that remain pertinent to the investigation of this topic. Venkatesan's research focuses on the 'assumptions related to consumption and

¹ Productivity Commission 2011, *Economic Structure and Performance of the Australian Retail Industry*, Report no. 56, Canberra, p 29.

² *ibid.*, p 30.

³ ‘Consumer Electronics - Worldwide | Statista Market Forecast’. 2018. *Statista*. <https://www.statista.com/outlook/251/100/consumer-electronics/worldwide>.

⁴ *ibid.*

production behaviour, demand, and supply are embedded as representative of consumer and producer behavioural norms.⁵ This is relevant to the current research as it forms an economic foundation upon which further concepts can be explored. Lewin and Chachanosky, on the other hand are interested in understanding the allocation of resources over time that are driven by price mechanisms.⁶ This allows a better understanding of consumer behaviour in relation to price factors. Oster's definition of concentration ratio is used by Nuševa, Mijić and Jakšić as "the percentage of industry sales or employment accounted for the largest few firms in the industry."⁷ This is used to define the characteristics of the coffee market in Serbia. Giancotti, Guglielmo and Mauro have carried out research in the context that the exploitation of economies of scale lead to better outcomes at lower average costs.⁸ This knowledge allows better understanding of advantages possessed by Amazon as a firm. Olawale, Adeyemi and Asogba establish a positive correlation between firm performance and penetration pricing strategy.⁹ This enables insight into potential market entrance strategies adopted by Amazon.

This essay aims to determine the market impacts Amazon will cause by entering the Australian consumer electronics market. In doing so, recent changes that have already occurred within this market will also be explored. This allows for better understanding the market structure as well as pre-existing domestic competitors. Amazon as a firm will further be evaluated to provide insight into the advantages it possesses within its operations. Impacts brought about will be examined from both competitor and consumer perspectives.

⁵ Madhavi Venkatesan, "The Role of Economics: Creating the Sustainable Rational Agent," *The International Advances in Economic Research* (2016): 187

⁶ Peter Lewin and Nicolas Chachanosky, "A financial framework for understanding macroeconomic cycles: The structure of production is relevant," *Journal of Financial Economic Policy* 8 no. 2 (2016): 268

⁷ Daniela Nuševa, Kristina Mijić and Dejan Jakšić, "The Performances Of Coffee Processors And Coffee Market In The Republic Of Serbia," *Economics of Agriculture* 64(1) (2017): 310

⁸ Monica Giancotti, Annamaria Guglielmo and Marianna Mauro, "Efficiency and optimal size of hospitals: Results of a systematic search," *Plos One* 12, no. 3 (2017): 1

⁹ Olawale, Luqman, Adekunle Adeyemi, and Israel Asogba. 2016. "The Effect Of Pricing Policy On The Performance Of Non-Financial Firms In Nigeria". *The Ieb International Journal Of Finance* 16: 30-43.

2 MARKET CONTEXT

2.1 Changes within the Australian consumer electronics market

The Australian consumer electronics market has become increasingly dynamic and significant, ‘the demand [for interconnected and wireless devices] almost guaranteed to increase over time,’¹⁰ as Australia experiences an ‘electronics market boom.’¹¹

Such sentiments can be substantiated by changes that have occurred to several large competitors within the market since 2010. According to statistics acquired from the Productivity Commission of Australia, the three largest competitors within the electrical sector of the Australia retail market in 2010-2011 were: Harvey Norman, JB Hi-Fi and Dick Smith Electronics with market shares of 23%, 17% and 8%, respectively.¹²

A concentration ratio provides ‘an indication of the percentage of output produced by the largest firms in an industry’¹³ and can be used to examine the ‘degree of competition in an industry.’¹⁴ Using the above figures, we can hence establish that the 3-firm concentration ratio of the Australian electrical retailing market during 2010-2011 was 48%.

Bankruptcy of Dick Smith Electronics

The initial major market change occurred in February of 2016, when the ‘end of Dick Smith as a business was originally announced.’¹⁵ With a public trading value of \$520 million¹⁶ in 2014, the closure of Dick Smith electronics is likely to create significant implications both to the overall structure of the market and competitors. JB Hi-Fi emerged as a major beneficiary of this situation, its profits ‘supercharged’¹⁷ after an ‘8.3% jump in sales,’ resulting in a 7%¹⁸ increase in share price.

Acquisition of The Good Guys

¹⁰ Wheeler, Mike. 2016. ‘Australia’s Electronics Market Boom’. *Electronicsnews* <https://electronicsnews.com.au/australias-electronics-market-boom>.

¹¹ *ibid.*

¹² Productivity Commission 2011, *Economic Structure and Performance of the Australian Retail Industry*, Report no. 56, Canberra, p 37.

¹³ Tragakes, Ellie. 2015. *Economics For The IB Diploma*. 2nd ed. Cambridge: Cambridge University Press. p 203

¹⁴ *ibid.*

¹⁵ Tucker, Harry. 2018. ‘Dick Smith Will Close Forever On May 3’. *Business Insider Australia*. <https://www.businessinsider.com.au/dick-smith-will-close-forever-on-may-3-2016-4>.

¹⁶ *ibid.*

¹⁷ Knight, Elizabeth. 2016. ‘JB Hi-Fi Profit Feeds On Dick Smith Corpse’. *The Sydney Morning Herald*. <https://www.smh.com.au/business/companies/jb-hifi-profit-feeds-on-dick-smith-corpse>.

¹⁸ *ibid.*

The Good Guys is a retailer of consumer electronics operating '101 stores across Australia with sales revenues of \$2.1 billion'¹⁹ in 2015. In 2016, JB Hi-Fi announced that it would takeover Good Guys in a deal worth \$870m.²⁰ IBISWorld senior industry analyst, Brian Lo comments that 'acquiring The Good Guys will likely boost the group's collective buying power, potentially increasing the entity's price competitiveness in shared product segments,' the combined group now 'dominating consumer electronics with around a quarter of that market.'²¹

During an interview with Garry Barret, professor at the School of Economics, University of Sydney, the Australian consumer electronics market was characterized as follows:

"There are a number of large chain stores as well as many small, single shopfront operators in the market, albeit with comparatively insignificant market shares."²²

Such descriptions of the structure may lead to the consumer electronics market being characterised as operating within an oligopoly structure, the defining characteristics of which are: small number of large firms, high barriers to entry and mutual interdependence.²³ The 2-firm and 3-firm concentration ratios, as identified by figures reported by Credit Suisse and Productivity Commission of Australia, is 60% and 48%, in 2010 and 2017, respectively. Both ratios are well above the 4-firm concentration ratio of 60% generally used to identify an oligopolistic market.²⁴ As collusion is outlawed in Australia, we can further deduce the market to be a non-collusive oligopoly. Furthermore, in a separate interview with Professor Trevor Stegman of the University of New South Wales, difficulties to enter and market and mutual interdependence were also identified:

"The main barrier to the entry of new firms into the Australian consumer electronics retail market is the relatively small size of the domestic market... In any market with a small number of firms (oligopoly), the results of any one firm's strategy depends on what rival firms' reactions are. Their actions are interdependent."²⁵

¹⁹ Foye, Brendon. 2016. 'JB Hi-Fi To Pay \$870M In Good Guys Takeover'. *ABC News*. <http://www.abc.net.au/news/2016-09-13/jb-hi-fi-announces-870m-good-guys-takeover/7837922>.

²⁰ *ibid.*

²¹ *ibid.*

²² Appendix 1.

²³ Tragakes, Ellie. 2015. *Economics For The IB Diploma*. 2nd ed. Cambridge: Cambridge University Press. p 201

²⁴ *ibid.*, p 203

²⁵ Appendix 2.

3 ANALYSIS OF AMAZON

3.1 Context of Amazon

Amazon is an electronic commerce company based in Seattle, Washington. Consumers can purchase both tangible and software products through its website Amazon.com. Amazon is the world's largest online retailer, now ranked as the world's most valuable company with a reported revenue of \$177.87 billion USD.²⁶

3.2 Ability to enter the Australian market

In a 2017 report title 'The Amazon effect in Australia', Morgan Stanley identified the potential impact of Amazon on Australian retailing:

"Amazon's entry in Australia will have a profound impact on the Australian retailing industry ... as it has had on most markets."²⁷



Figure 1²⁸ - Number of Sellers Amazon Australia.

In the 4 months after launch, Amazon Australia had grown more than 273%, as shown in figure 1. Figures reported by Nielson Holdings indicate that after 42 days, Amazon's Australian Marketplace became the fastest growing in the world, already surpassed

²⁶ "Amazon.Com, Inc.". 2018. *Nasdaq*. <https://www.nasdaq.com/symbol/amzn/stock-report>.

²⁷ Morgan Stanley On The 'Profound Impact' The Jeff Bezos Juggernaut Will Have On Australian Retail'. 2017. *Business Insider Australia*. <https://www.businessinsider.com.au/the-amazon-effect-morgan-stanley-on-the-profound-impact-the-jeff-bezos-juggernaut-will-have-on-australian-retail-2017>

²⁸ "Amazon Grows To Ten Thousand Sellers In Australia". 2018. *Marketplace Pulse*. <https://www.marketplacepulse.com/articles/amazon-grows-to-ten-thousand-sellers-in-australia>.

around 5000 retailers with 3.8 million consumers visiting the site.²⁹ Amazon is expected to further grow to reach 50,000 sellers by the end of 2018.

Barriers of entry may be defined as 'factors making it difficult for other firms to enter the industry.' Despite relatively high barriers to entry (high fixed start-up costs, expensive stock, etc.) in the oligopolistic consumer electronics market, the above figures show Amazon has bypassed such barriers and successfully entered the market. This situation can be attributed to several aspects of Amazon's operations as a firm.

3.3 Economies of scale

Economies of scale are 'decreases in the average costs of production over the long run as a firm increases all its outputs.'³⁰ Amazon's size and scale is a key aspect in allowing Amazon to possess 'economies of scale that are practically impossible to match,'³¹ says Reuven Cohen of Enomaly, an online cloud-computing marketplace. This concept is illustrated in figure 2:

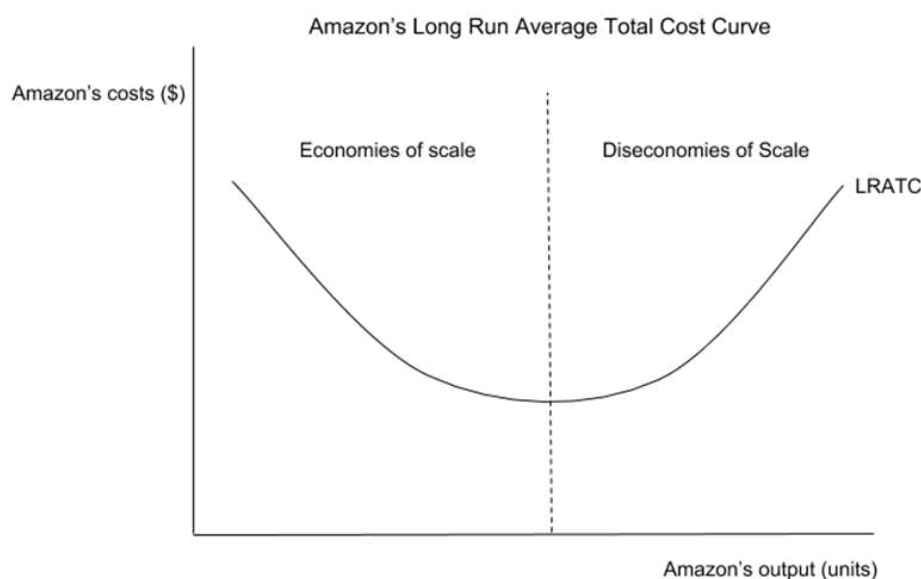


Figure 2 - Amazon's Long Run Average Total Cost

As illustrated in figure 3, when Amazon produces within economies of scale, long run average total cost decreases. To put simply, Amazon's increase in output exceeds the addition in input; Amazon becomes more efficient as a firm.

During a personal interview with professor Garry Barret, such advantages are further explained to be connected to Amazon's 'business model based on online sales':

²⁹ "Amazon: The Unstoppable Force Hitting Australian Retailers". 2018. *Adnews.Com.Au*. <http://www.adnews.com.au/news/amazon-the-unstoppable-force-hitting-australian-retailers>

³⁰ Tragakes, Ellie. 2015. *Economics For The IB Diploma*. 2nd ed. Cambridge: Cambridge University Press. p 153.

³¹ "The Walmart Of The Web". 2018. *The Economist*. <https://www.economist.com/node/21530980>.

“[Amazon’s business model], backed by large modern warehouse and distribution systems, generates cost savings compared to traditional retailers – leading to lower consumer prices and ultimately a larger share of the retail sales.”³²

Amazon’s scale and business model allows aggressive investments and focus on improving aspects such as warehousing facilities, processing capability and robotics technology allows the firm to possess infrastructure competitors could never replicate. As Amy Shi of Harvard Business School claims, ‘with its investment in facilities, logistics, and technology, and continued desire to innovate and improve, it’s hard to see how any competitor can catch up.’³³

However, it is also significant to note that while Amazon’s economies of scale lower its average costs, the firm still struggles with profitability as total costs increase due to aggressive re-investment into the research and development.

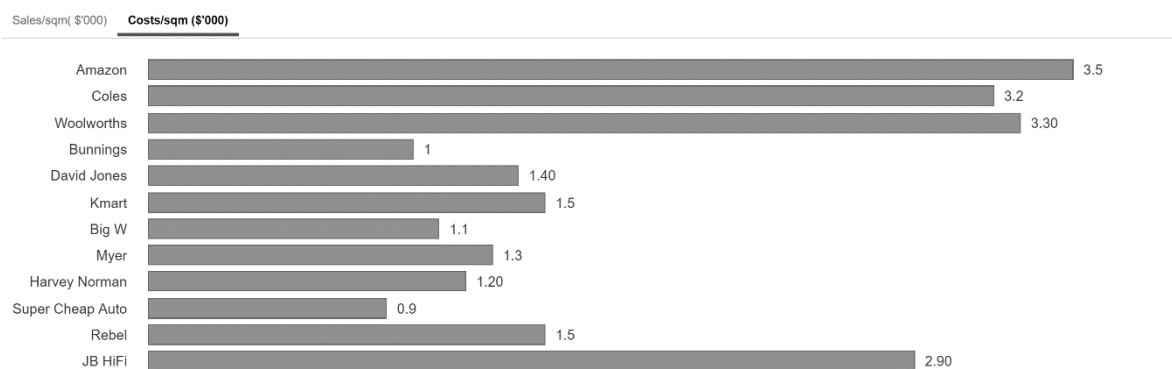


Figure 3³⁴ - Amazon’s costs compared with major Australian retailers

As shown in figure 3, Amazon’s costs per square meter are the highest compared to other major Australian retailers. However, this figure does not indicate Amazon’s inefficiency, rather a ‘strategic decision to prioritize growth over profits to sustain its competitive advantages.’³⁵ This approach is further supported when looking at Amazon’s sales per square meter, which is significantly higher than other Australian retailers.

³² Appendix 1.

³³ Shi, Amy. 2018. "Amazon: Taking Over The (Retail) World – Technology And Operations Management". *Rctom.Hbs.Org*. <https://rctom.hbs.org/submission/amazon-taking-over-the-retail-world/>.

³⁴ Letts, Stephen. 2018. "Who'll Feel The Pain From Amazon's \$12B Raid On Australian Retail?". ABC News. <http://www.abc.net.au/news/2017-06-02/amazon-massive-raid-on-australian-retail/8580544>.

³⁵ *ibid*.



Figure 4³⁶ - Amazon's sales compared with major Australian retailers

As illustrated by figure 4, Amazon's sales efficiency is the highest when compared to other Australian retailers. Analyst Stephen Letts of the ABC reaffirms that 'while Amazon's costs are marginally higher than the likes of Woolworths, Coles and JB HiFi, its sales efficiency is significantly higher.'³⁷

4 IMPACT ON COMPETITORS

Amazon is projected to hugely impact already established Australian retailers; as Michael Page analytics comments:

"With an already established consumer base in Australia, Amazon's impact on Australian retailers is predicted to be significant."³⁸

While it may be difficult to use real world figures to justify such predictions, we may draw conclusions by looking at the US retailing market - a market Amazon has altered significantly. Michael Page further explains:

"Many of the major retailers in the US have been unable to keep up with Amazon's savvy and technologically advanced business model, which provides an incredibly convenient shopping experience with fast delivery times, low prices and an extensive product range."³⁹

³⁶ Letts, Stephen. 2018. 'Who'll Feel The Pain From Amazon's \$12B Raid On Australian Retail?'. ABC News. <http://www.abc.net.au/news/2017-06-02/amazon-massive-raid-on-australian-retail/8580544>.

³⁷ *ibid.*

³⁸ "Amazon Is Coming: How Will It Impact The Australian Retail Market?". 2017. Michael Page. <https://www.michaelpage.com.au/advice/market-insights/market-updates/amazon-coming-how-will-it-impact-australian-retail-market>.

³⁹ *ibid.*

As a result of such profound advantages, in 2017, major US retailer Macy's recorded the closure of over 100 stores, and a drop in share price of over 10%. Such effects could be mirrored in the Australian market, with Amazon predicted to become the 'sixth largest retailer in Australia in 5-10 years outpacing retailers like Kmart, JB Hi-Fi and Harvey Norman,'⁴⁰ according to projections from Credit Suisse. Amazon's entrance and impact upon the Australian market is illustrated in figure 5 below.

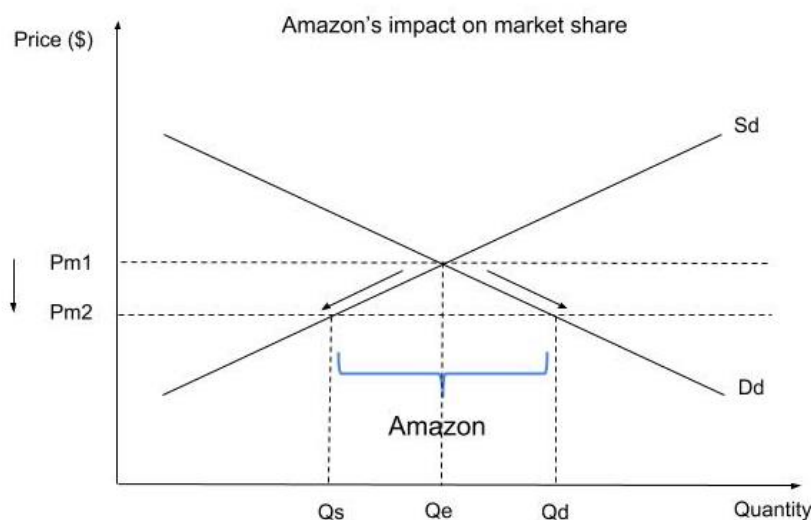


Figure 5 - Amazon's entrance into Australian electronics market

The market equilibrium is initially established where domestic demand meets domestic supply, at the intersection of D_d and S_d , price P_{m1} , quantity Q_e . The entrance of Amazon into the market shifts the price of the market (and received by consumers) to P_{m2} . The premise of lower price is affirmed by comments made by Michael Page Group:

"Amazon reportedly planning to undercut local prices by as much as 30%"⁴¹

At this new price, domestic demand expands along D_d to point Q_d and domestic supply contracts along S_d to point Q_s . This difference in volume demanded and supplied now becomes market share acquired by Amazon. This gained market share can further be categorized into two groups: the area between Q_e and Q_d are new customers created by Amazon, attracted by the new and lower market price while the area between Q_e and Q_s can be attributed to pre-existing consumers of electronics, who are no longer served as firms lower production levels. This categorization of new Amazon customers is further supported by a personal interview with professor Trevor Stegman from the University of New South Wales:

⁴⁰ Saligari, Grant, and Troy O'Dwyer. 2017. 'Australian Retail - Amazon Ready Or Not'. Credit Suisse. p 2.

⁴¹ "Amazon Is Coming: How Will It Impact The Australian Retail Market?". 2017. Michael Page. <https://www.michaelpage.com.au/advice/market-insights/market-updates/amazon-coming-how-will-it-impact-australian-retail-market>.

“The entrance of Amazon into the Australian consumer electronic market is likely to attract a large number of consumers, both new consumers and switchers from rival companies to take advantage of Amazon system.”⁴²

4.1 Differential impact

The idea of differential impact is detailed within a 2017 report published by Credit Suisse. The projected impacts of Amazon on major Australian retailers are shown in figure 8:

Figure 1: Deviation in FY22 EBIT from ex. Amazon scenario

| Stock code | High Amazon impact | Low Amazon Impact |
|------------|--------------------|-------------------|
| JBH | -33% | -14% |
| HVN | -9% | -3% |
| SUL | -32% | -19% |
| MYR | -55% | -18% |
| PMV | -22% | -13% |

Source: Company data, Credit Suisse estimates

Figure 7⁴³ - Projected 5 year impacts on Australian retailers

Such different levels of projected impact can be attributed to nature of goods retailed:

“Amazon customers have high engagement with electrical and home goods. Big, bulky and limited distribution products tend to be less impacted.”⁴⁴

An example of such impacts can be explored by looking at the firms JB Hi-Fi and Harvey Norman. Due to the propensity of Harvey Norman stores to retail big and bulky products such as furniture, the impact of Amazon is significantly less (3-9%) than a retailer like JB Hi-Fi (14-33%), which specializes in smaller sized electronic goods.

We can further analyse the difference in terms of sales loss by first establishing the initial (before entrance of Amazon) operations of domestic retailers using figure 6.

⁴² Appendix 2.

⁴³ Saligari, Grant, and Troy O'Dwyer. 2017. 'Australian Retail - Amazon Ready Or Not'. Credit Suisse. p 2.

⁴⁴ ibid.

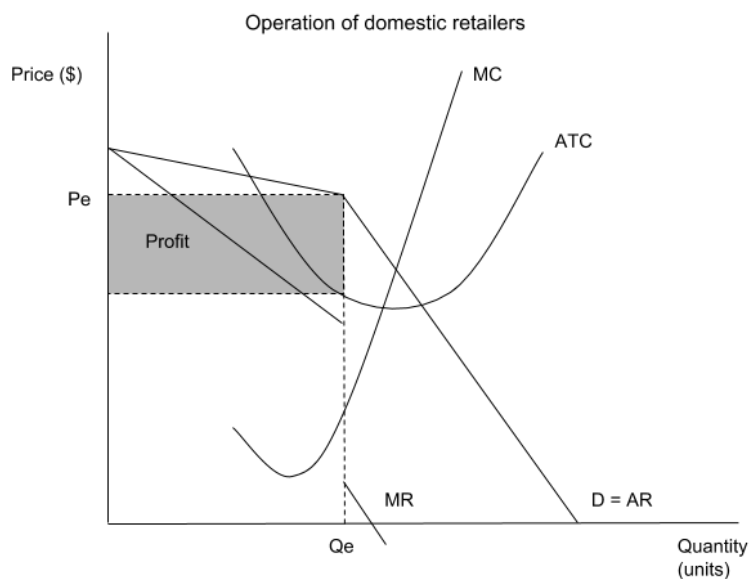


Figure 6 - Domestic retailing operations before Amazon entrance

In figure 7, firms in the market produce at profit maximizing point ($MC=MR$), at quantity Q_e , selling at price P_e . Profit for this firm can be found by $(P_e - ATC) \times Q_e$. This area is shaded in the diagram above. After the entrance of Amazon, the demand received by domestic competitors is inevitably due to decrease, as per figure 5. The level of impact can largely be separated into two levels, the first of which is:

1. Retailers who can still operate, albeit at lower profit margins and selling lower quantities.

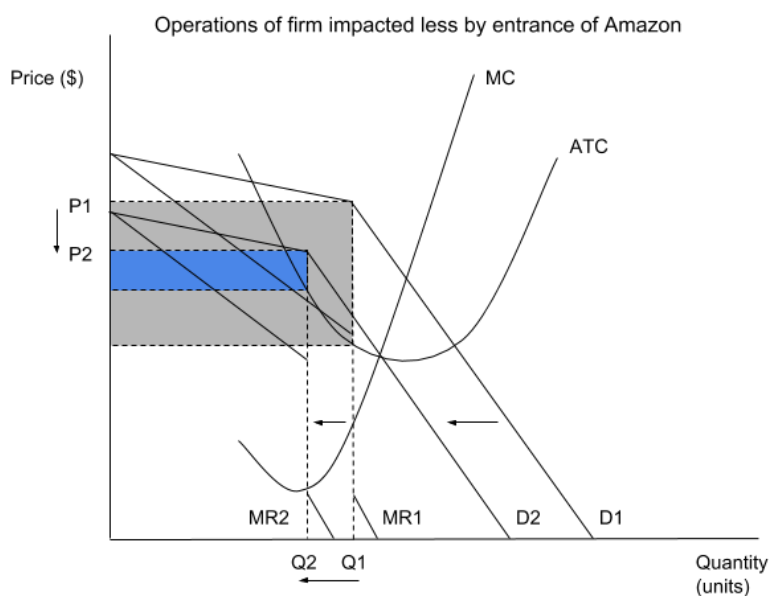


Figure 8 - Domestic retailer impacted less by arrival of Amazon

In figure 8, due to the loss of market share incurred after the arrival of Amazon, demand (average revenue) shifts inwards from D_1 to D_2 and marginal revenue shifts from MR_1 to MR_2 . The firm now produces at the intersection of MC and MR_2 , at lower price P_2 . This occurs as the arrival of Amazon has lowered market price, as illustrated in figure 5. Quantity of output decreases from Q_1 to Q_2 . Profit decreases from initial operations and can be found by $(P_2 - ATC) \times Q_2$; the new profit margin is shaded blue. While profits decrease for such firms, these retailers can continue operating as revenue exceeds average total cost. The ability to operate in the long run separates such firms from competitors experiencing the second level of impact:

2. Retailers who can no longer operate in the long run, as total costs exceed revenue.

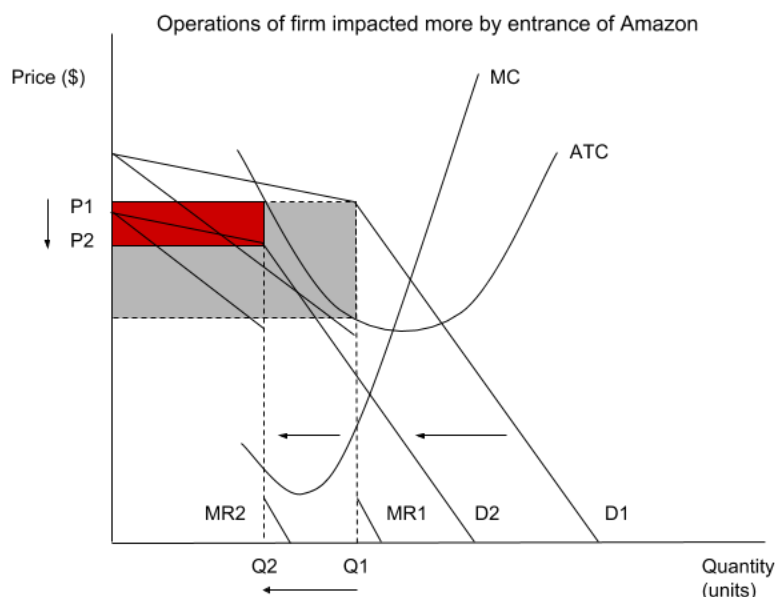


Figure 9 - Domestic retailer impacted heavily by arrival of Amazon

In figure 9, demand for retailers projected to receive high level Amazon impact will shift inwards significantly, from D_1 to D_2 . The firm now produces at the intersection of MC and MR_2 , at lower price P_2 . At the lower level of output, Q_2 , total costs for the firm are higher than revenue, thus incurring loss. This can be calculated by $(ATC - P_2) \times Q_2$. Due to this level of impact, many smaller firms with an inability to remain competitive could be eliminated from the market. This empty market share will likely be absorbed, at least in part, by Amazon.

5 IMPACT ON CONSUMERS

Amazon's arrival is likely to significantly impact the behaviors of Australian consumers within the electronic market. Nielsen Holdings reports survey results indicating that 56% of Australians over the age of 18 are likely to purchase products from Amazon Australia.⁴⁵ Such figures mirror trends concluded through a personal survey conducted for the purpose of this research topic.

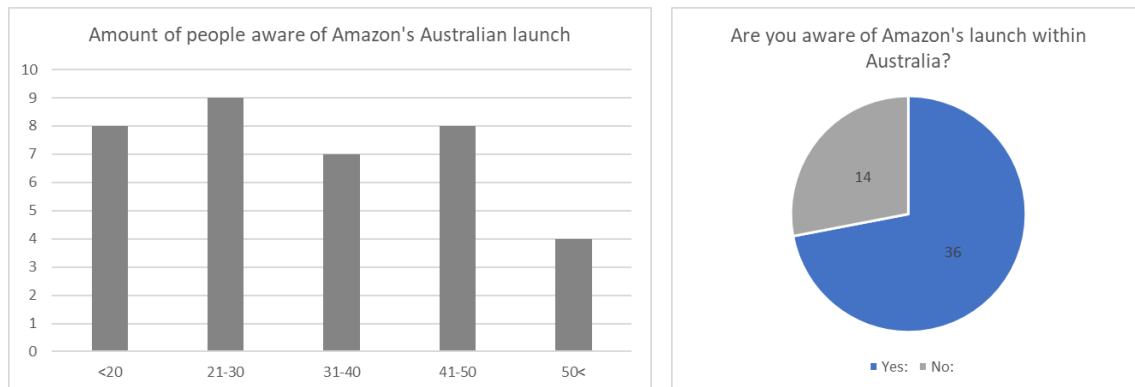


Figure 10⁴⁶ - Consumer awareness of Amazon's Australia launch

As shown in figure 5, a total of 36 (out of 50) consumers were aware of Amazon's launch in Australia. Taking into account that 10 people were interviewed from each age group, people aged 21-30 represented highest awareness, with 90% awareness of the event, and only 40% awareness displayed in people aged above 50. This represents an overall 72% awareness.

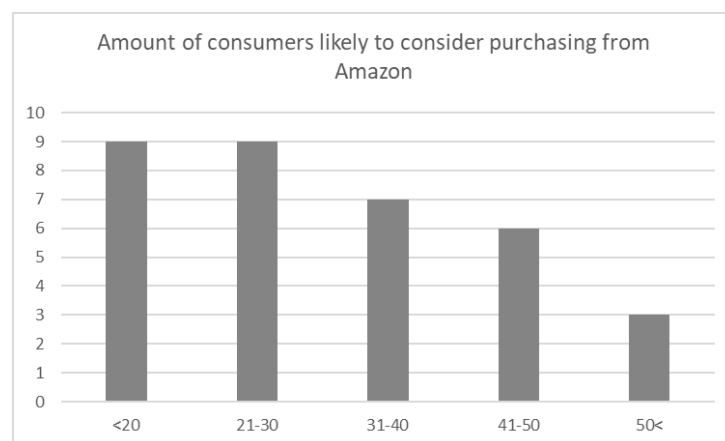


Figure 11 - Number of consumers likely to make a purchase from Amazon

⁴⁵ Treston, Megan. 2018. 'Amazon's Aussie Arrival: Consumers Respond To The Newest Player In Our Retail Jungle'. *Nielsen.Com*. <http://www.nielsen.com/au/en/insights/news/2017/amazons-aussie-arrival-consumers-respond-to-the-newest-player-in-our-retail-jungle.html>.

⁴⁶ Appendix 3.

Figure 7 displays the already high level of consumer interest in Amazon, with 90% of Australians below the age of 30 likely to consider purchasing products from Amazon. Forrester analyst Zhi Ying Ng believes that Amazon can ‘easily win back the hearts of Australian consumers because they have been deprived of a good online experience.’ This perspective is again supported by figures acquired through the survey concluded, through which only 14% of consumers communicated a strong preference or loyalty to a particular electronics retailer and 26% believed that there was a strong online retailer presence prior to the launch of Amazon. Ng further notes the significant advantages that Amazon, as an established ecommerce retailer, possesses. Such advantages can be attributed to two different aspects of competition: price and non-price.

5.1 Price competition

Penetration Pricing

Penetration pricing occurs when ‘the price charged for products and services is set below market price in order to gain market share.’⁴⁷ This is illustrated in figure 8.



Figure 12 - Amazon's pricing strategy

Penetration pricing is commonly used by new market entrants for purposes of enlarging market share and exploiting economies of scale. Having already established Amazon's prioritization of growth over profits, penetration pricing is a likely strategy to be implemented by the firm. As Morgan Stanley's Thomas Kierath explains:

‘Amazon has a very long-term investment horizon, so it doesn't mind losing money in the build-out phase.’

⁴⁷ Friesner, View. 2018. 'Pricing Strategies'. *Marketingteacher.Com* <http://www.marketingteacher.com/pricing-strategies/>.

As shown in figure 12, assuming market price of P_2 , Amazon's initial price of P_1 immediately captures a higher market share, with additional quantity demanded of $Q_1 - Q_2$, although at lower prices. While this may impact upon Amazon's immediate returns, this strategy is ultimately beneficial in the long run, fostering accelerated market share growth.

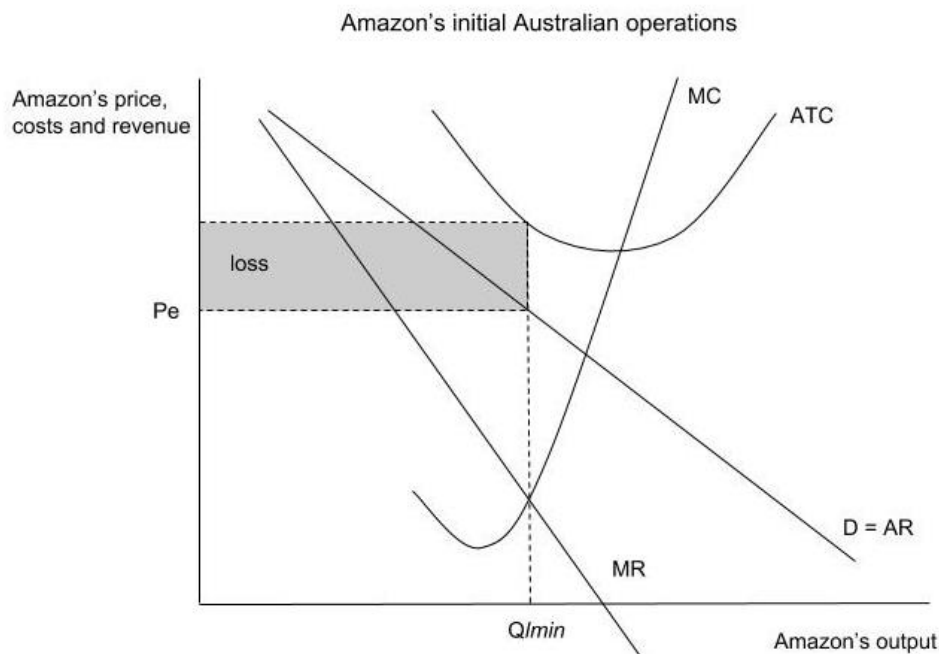


Figure 13 - Amazon's initial operations

Amazon's penetration pricing strategy, combined with its aggressive long-term minded re-investment could mean that Amazon's operations within Australia, at least initially, are at a loss. This scenario is illustrated in figure 13. Amazon's losses can be calculated by $(ATC - P_e) \times Q_{lmin}$. However, due to Amazon's global dominance and size, in the case of a price war with domestic competitors, Amazon is likely to sustain lower prices for a longer period of time, this situation ultimately favorable in the long run.

5.2 Non-price competition

Non-price competition also plays an important part of Amazon's operations. Stephen Letts of the ABC cites that a major aspect of Amazon's competitiveness relies on "ensuing operating deleverage as consumers prefer the ease of ordering on Amazon with one-or-two-day delivery offered for free under Amazon Prime."⁴⁸ Within a personal survey conducted, consumers were asked to rate the significance of different

⁴⁸ Letts, Stephen. 2018. "Who'll Feel The Pain From Amazon's \$12B Raid On Australian Retail?". ABC News. <http://www.abc.net.au/news/2017-06-02/amazon-massive-raid-on-australian-retail/8580544>.

aspects of the shopping experience from 1-5, with 5 being most important. These results are displayed in figure 14.

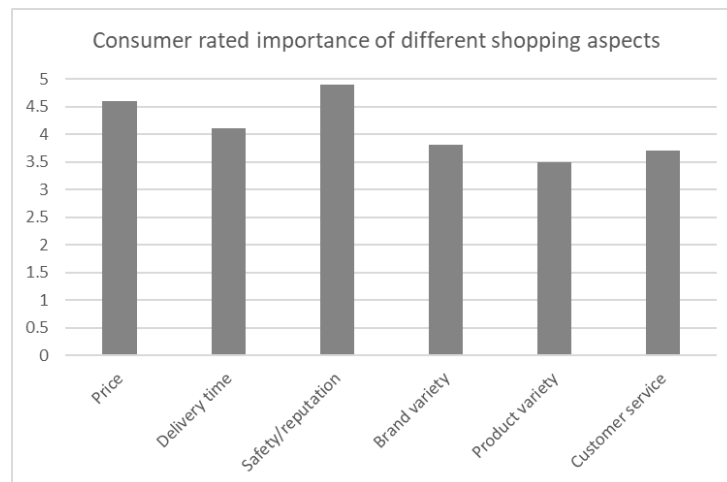


Figure 14 - Significance of different shopping experience aspects

As shown, the factor of safety and reputation of retailer was regarded as the most important for consumers, with a mean rating of 4.9/5. Michael Page affirms this view, commenting that Amazon has an ‘already established customers base,’ and that ‘it will be able to win over Australian consumers easily.’⁴⁹ Delivery time was also seen as very important, receiving an average rating of 4.1/5. This advantage is likely to be further utilized with the launch of Amazon Prime in the near future. While offering free express delivery, this service will also provide consumers with exclusive shopping deals and content streaming. Russ Grandinetti, senior vice president of international consumer for Amazon, expects Amazon Prime’s success to be ‘assured so long as consumers wake up everyday wanting faster, cheaper and better products.’⁵⁰

Amazon’s overall impact on consumers is predicted to be significant, with Citigroup’s report predicting that ‘Amazon will capture 14% of the total online spending in Australia within the next 5 years,’ with ‘price competition reducing the Australian consumer price index (CPI) by 0.25% (UBS data).’⁵¹

⁴⁹ “Amazon Is Coming: How Will It Impact The Australian Retail Market?”. 2017. Michael Page. <https://www.michaelpage.com.au/advice/market-insights/market-updates/amazon-coming-how-will-it-impact-australian-retail-market>.

⁵⁰ Kelly, Vivienne. 2018. “Amazon Ready For Prime Launch, But Has A ‘Long Way To Go’ In Australia”. Mumbrella. <https://mumbrella.com.au/amazon-readying-local-prime-launch-long-way-go-australia-510295>.

⁵¹ “Australia’s Ecommerce In 2018: How Amazon Challenges The Retail Industry”. 2018. Webalive. <https://www.webalive.com.au/ecommerce-australia-2018/>.

6 CHANGES IN BUSINESS MODEL

The entrance of Amazon into the Australian consumer electronics market will inevitably force many domestic retailers to reconsider and refine pre-existing business models. Vice-president of Gartner, Mariam Burt quotes that:

“Rather than fearing Amazon, Australian retailers should learn from them [...] everything that Amazon innovates is designed to make the customer's lifestyle better, safer and simpler.”⁵²

Michael Page group further cites factors such as ‘online presence, delivery timeframes and even site load times’⁵³ as significant factors that contribute to sustainable success for domestic competitors. The lower market price introduced by global competitors will continue to play an important role within the changes that businesses decide to implement, as firms consider how to ‘turn a profit even with drastic price reductions,’⁵⁴ with better utilization of supply chains, more efficient transport costs and corporate synergy⁵⁵ all likely factors to be considered.

As previously mentioned, online presence of Australian electronics retailers also needs drastic improvement. While most retailers have been generally slow to embrace e-commerce, JB HiFi remains one of the few exceptions; according to the ABC, 3% of its main brand revenue is generated from online sales, while its subsidiary Good Guys generates about 5%.⁵⁶ While this is a step towards the right direction, online retailing infrastructure is not yet established enough to viably and effectively compete with ecommerce giants like Amazon in the long run. Digital management company, WebAlive comments:

“Online retailers and ecommerce website owners must improve their delivery service, customer relations and focus on innovative business ideas to compete with Amazon in the coming years. A price war is not going to be a successful long-term strategy for those going up against Amazon.”⁵⁷

⁵² Lewis, Michelle. 2018. ‘Why Australian Business Should Not Be Afraid Of Amazon’. *Blog.Voiceplus.Com.Au*. <https://blog.voiceplus.com.au/why-australian-business-should-not-be-afraid-of-amazon>.

⁵³ ‘Amazon Is Coming: How Will It Impact The Australian Retail Market?’. 2017. Michael Page. <https://www.michaelpage.com.au/advice/market-insights/market-updates/amazon-coming-how-will-it-impact-australian-retail-market>.

⁵⁴ Ibid.

⁵⁵ Ibid.

⁵⁶ Letts, Stephen. 2018. ‘Who'll Feel The Pain From Amazon's \$12B Raid On Australian Retail?’. ABC News. <http://www.abc.net.au/news/2017-06-02/amazon-massive-raid-on-australian-retail/8580544>.

⁵⁷ ‘Australia's Ecommerce In 2018: How Amazon Challenges The Retail Industry’. 2018. Webalive. <https://www.webalive.com.au/ecommerce-australia-2018/>.

The sentiment of engaging in price competition with Amazon is similarly discouraged by The Australian Institute of Company Directors, who believe high short term costs to establish infrastructure may be unavoidable and that ‘relying on markdowns and promotions to drive traffic and sales leads to margin and brand erosion.’

7 CONCLUSION

Whilst the structure of the Australian consumer electronics market still remains a non-collusive oligopoly, the entrance of Amazon causes significant and inevitable changes to occur within domestic retailing.

The already dynamic Australian consumer electronics market may be characterized as a non-collusive oligopoly from characteristics such as high firm concentration ratio, mutual interdependence and high barriers to entry. Amazon’s utilization of economies of scale stemming from its unique global dominance allows the competitor to enter the domestic market. Furthermore, its emphasize on market share growth and willingness to accommodate short term loss can be reflected in strategies such penetration pricing, which allows rapid capturing of market share and impacts the short-term price stability within the market: an unusual occurrence in oligopolistic markets. In the near-future, non-price aspects of competition may also further intensify as Amazon Prime launches, promising improvements to intrinsic aspects of consumer experience such as delivery timeframes.

Whilst loss of market share may be a common effect experienced by all domestic competitors, this will occur to different extents as determined by the nature of products retailed. Retailers whose operations fall below shut-down point may be forced to cease-operations, thus diluting the firm concentration within the market. Remaining competitors may adopt changes in business strategies and improve upon electronic commerce infrastructure and enhance aspects of non-price competition as price wars are generally unfavorable.

There are certainly limitations to the research conducted around this topic. The scale of consumer survey may be an area of improvement for future research, as only 50 data points were selected. Furthermore, the socio-economic demographics of said consumer may also not be representative of the overall population. More focus into the consumer habits across different cultures may also enhance the understanding of choices made by Amazon when entering new markets. If conducted again, the research could incorporate real-world statistics (when available) to validate conclusions drawn.

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9 APPENDICES

Appendix 1.

Transcript of interview 1 - Professor Garry Barret

“I expect Amazon will add to the competitiveness of the Australian consumer electronics market. I am not an expert on this segment of the retail sector; however, I am aware that there are a number of large chain stores as well as many small, single shopfront operators in the market, albeit with comparatively insignificant market shares. A large international company like Amazon, with its successful business model, will add to the level of competitiveness in the market.

I have followed the literature which has analysed the impact of Walmart opening new retail outlets in the USA. This is a different context to Amazon setting up in Australia (Walmart has shop fronts and sells a much broader range of products), but I think there are some useful parallels. I have been most impressed by work by David Neumark (UC Irvine) and colleagues on this topic. They have found that when Walmart opens a new shop in a county / region, the increased retail competition caused (i) net retail employment in the region to go down, (ii) average retail sector wages also declined, while (iii) volume of sales and arguably consumer welfare increased.

I would anticipate similar effects from the entry of Amazon into the Australian consumer electronics market. This would likely decrease profit margins at existing retailers, possibly the smaller independent retailers may be most affected, and total employment and earnings in the sector may go down (or, more likely, grow at a slower rate than would be the case without Amazon’s entry.

I think Amazon’s size – as a major international corporation with an established supply network – is a major reason why it will add to the competitiveness of the Australian market, and it is also why existing firms would be concerned about Amazon’s entry. The size of the Amazon helps the firm meet the costs and barriers of entering the Australian electronic market. (Again – I am not an expert on this retail – though it appears to me that the consumer electronic market is much more contestable, with lower fixed start-up costs, than other sectors of the retail market. An advantage of Amazon is its experience in developing distribution networks for online purchases).

The size, scale economies, of Amazon allows it to price consumer products at a discount relative to competitors. The business model based on online sales, backed by

large modern warehouse and distribution systems, generates cost savings compared to traditional retailers – leading to lower consumer prices and ultimately a larger share of the retail sales.

My strong prediction is that the entry of Amazon will improve consumer choices and welfare. Greater price competition, and potentially the access to a greater number of products (plus access to new products more rapidly) will be to the benefit of consumers.

I foresee a variety of responses from local competitors. The larger chain stores may respond in kind and try to compete on price (and possibly with a greater online presence to try to capture the segment of consumers who are most price sensitive and go online to search for the best bargains). I imagine other, small local shop may react by specialising in their “comparative advantage” - better and more personalised customer service, and more specialised / niche or high-end products. Also, a number of the current retailers may be forced to shut down, losing customers and becoming unprofitable in the more competitive environment.”

Appendix 2.

Transcript of interview 2 - Professor Trevor Stegman

“My understanding is that Amazon is a content provider and an e-sales distributor. The consumer electronics industry would be only part of its operations, although it would achieve economies of scope.

I think the main barrier to the entry of new firms into the Australian consumer electronics retail market is the relatively small size of the domestic market. In an industry in which economies of scale are important there is only room for a limited number of firms.

Amazon's extensive operations in other markets and its large resources may mean it can enter and dominate this market. In any market with a small number of firms (oligopoly), the results of any one firm's strategy depends on what rival firms' reactions are. Their actions are interdependent.

The entrance of Amazon into the Australian consumer electronic market is likely to attract a large number of consumers, both new consumers and switchers from rival companies to take advantage of Amazon system. Existing companies might improve their services in order to try and retain their customers.”

Appendix 3.

Primary consumer survey

Are you aware of Amazon's launch in Australia?

Below 20: 8 responded yes.

20-30: 9

30-40: 7

40-50: 8

50+: 4

Overall, 36 people were aware - 72%

Have you purchased any good from Amazon Australia?

Below 20: 3

20-30: 4

30-40: 3

40-50: 2

50+: 1

Overall - 26%

For your next purchase of electronics, are you likely to look at Amazon?

Below 20: 9

20-30: 9

30-40: 7

40-50: 6

50+: 3

What type of goods are you most likely to purchase using Amazon?

Electronics: 29

Clothes :7

Furniture: 0

Personal Care: 3

Toys: 0

Hardware: 2

Cosmetics/skin care: 4

Sporting goods: 5

How important are the following aspects of shopping experience?

Price: 4.6

Delivery time: 4.1

Safety/reputation: 4.9

Brand variety: 3.8

Product variety: 3.5

Customer service: 3.7

Do you feel significant brand loyalty to any retailer?

No: 86%

Yes: 14%

Before the arrival of Amazon, do you feel there was a strong online presence within the consumer electronics market?

No: 58% (29)

Yes: 26% (13)

Indifferent/neutral: 16% (8)