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So Amazon Thinks It Can Do Retail

Denise Lee Yohn 10/17/2014 @ 5:49AM

Amazon is no longer satisfied with dominating the e-commerce world. Reports are circulating of its plans to open a brick-and-mortar store in New York City in time for the holiday shopping season; and it will begin operating pop-up kiosks in San Francisco and Sacramento as early as next week.

Amazon's move into physical retail is motivated in part by the desire to capture more sales of electronic gadgets like tablets. More hands-on experiences lead to more sales. Also by utilizing its physical sites as distribution centers, Amazon can deliver products to some customers even more quickly and therefore compete more directly with other brick-and-mortar outlets.

Perhaps Amazon's primary reason for opening physical stores is to market the Amazon brand. An in-store experience is the best way to make the brand seem more human. In person, Amazon can best demonstrate its brand personality and create a more emotional connection by appealing to the five human senses.

But the unique marketing opportunity that retail presents is not without challenges. The Amazon brand has become synonymous with attributes that are much more difficult to execute in brick-and-mortar.

Product selection, for example, is one of Amazon's key equities. It's relatively easy deliver on the brand tagline, Earth's Biggest Selection, when you're running hundreds of thousands of vendor contracts out of huge distribution centers. However, its brick-and-mortar stores will have to carry a streamlined selection. Specialty retail thrives on curated product selection and success depends on skilled merchants and designers who masterfully select the right assortment to feature at the right time. It's unclear whether or not Amazon has these capabilities. It certainly has the data to help make inventory predictions and to test-and-learn quickly, but there still may be a learning curve.

Amazon is also known for having the lowest prices – and for offering various fulfillment options at various prices. In order to do the former in a retail store, the company will have to operate at a loss given the current market's high labor and real estate costs. And the latter is pretty much not an option to do in physical stores. To offset the constraints on pricing, Amazon can try to reframe the value equation by offering value-added services and creating an extraordinary shopping experience. But again, it's not clear if it has the chops to do so. And forgoing more margin will only increase pressure from investors who over the summer started to show concern about the company's growing losses.

Convenience is the third pillar of the Amazon brand, and like the others, poses a particular challenge at retail. The company has cultivated such high expectations for shopping ease and delivery speed, it may be difficult to meet those expectations in a very different operating model. Also, it terms of providing a seamless cross-channel shopping – e.g., customers' ability to pick up and return online orders in store, consistent pricing and promotional offers across channels, etc. — many brick-and-mortar retailers have struggled. Amazon may have an advantage in this over others given its superior operational e-commerce capabilities, but it may also be disadvantaged by its reliance on data and automation in the high-touch world of brick-and mortar.

Time will only tell whether brick-and-mortar turns out to be yet another victory for Amazon or an overreaching test that's quickly shelved.   Either way, it will definitely be fodder for a business school case study.