

**COOPETITION IN THE GLOBAL BOOK INDUSTRY:
THE CASE OF AMAZON.COM'S EVOLUTION**

Workshop theme:

Cooperation and coopetition in an interorganizational context

Paavo Ritala*

Post-Doctoral Researcher, School of Business
Research Manager, Technology Business Research Center
Lappeenranta University of Technology,
PO Box 20, FI-53851 Lappeenranta, Finland
Tel +358 40 833 5852
*Corresponding author, email: ritala@lut.fi

Arash Golnam, Alain Wegmann

Ecole Polytechnique Fédérale de Lausanne
School of Computer and Communication Sciences (I&C)
Systemic Modeling Laboratory (LAMS)
Station 14, CH-1015 Lausanne, Switzerland
Tel: +41 21 693 43 81
Email {[arash.golnam](mailto:arash.golnam@epfl.ch), [alain.wegmann](mailto:alain.wegmann@epfl.ch)}@epfl.ch

Abstract

Coopetition (collaboration between competing firms) is a phenomenon which has recently captured a great deal of attention due to its increasing relevance to business practice. The current research on coopetition is still short in explaining how the potential advantages of coopetition strategy can be realized over time as a part of individual firm's business model. In order to approach this gap, this study focuses on understanding how coopetition strategy of a firm evolves over time, and how such strategy is executed through the business model of Amazon.com. We find evidence on three distinct cooperative business models: 1) Amazon Marketplace 2) Amazon Services and 3) Collaboration between Apple and Amazon on digital text platforms. As a result, we put forward several propositions on how the potential advantages of coopetition strategy can be reached by involving competitors within the firm's business model. Thus, the results increase the understanding on how business models can be designed to include competitive partners, and how a firm can capture value through such arrangements. Overall, the study contributes to the extant coopetition research by showing the aspects inherent in business models that can help to realize potential advantages of coopetition strategy.

1. Introduction

In the contemporary economy, firms increasingly collaborate with their competitors in order to gain benefits that they could not achieve alone, including risk and cost sharing, sharing distribution channels, co-marketing and collaborative innovation. In academic research as well as in business practice this phenomenon has been named coopetition (see e.g. Brandenburger & Nalebuff, 1996; Bengtsson & Kock, 2000).

The extant research has shown that coopetition can be a beneficial relational strategy for firms or industries (see e.g. Luo et al., 2007; Kock et al., 2010; Rusko, 2011). However, the literature lacks systematic longitudinal evidence on how coopetition shapes the strategies as well as business models of key players within certain industries over time. Such knowledge would be particularly useful for the practicing managers in organizations pursuing to gain strategic benefits from coopetition in the long run.

In order to address this research gap, we present a longitudinal study examining the impact of Amazon.com's coopetitive relationships since its establishment on Amazon.com's value creation, survival and growth as well as the evolution of its business model. Instances are provided on Amazon.com's coopetition in the global book industry and data triangulation is used in order to incorporate rich evidence on the case – the sources include annual reports and financial statements, news releases, as well as existing exploratory and illustrative research (e.g. HBR cases and books) on Amazon.com. The results of our study show that Amazon.com has successfully adopted coopetition within its business model in three particular phases over time, all of which have had a substantial impact in the global book industry.

The remainder of this study is formulated as follows. First, we review the existing evidence on how coopetition shapes industry dynamics, followed by a generic analysis of strategic advantages and related business models in coopetition. This is followed by a longitudinal case study over Amazon.com's evolution in terms of coopetition initiatives. After this, a set of propositions is put forward, concerning how a firm can involve competitors within its business model over time. The study ends with implications for research and practice.

2. Evolution of coopetition in industries

In the industry level, coopetition has been shown to evolve over time and shape the competitiveness of industry participants, as well as the overall logic of the industries themselves. Coopetition is often introduced in the industry over time, either as the emergence of collaboration into the relationship of competitors, or as the emergence of competition into the relationship of collaborating firms (Padula & Dagnino, 2007). While coopetition is generally defined as the *simultaneous existence of competition and collaboration*, the emphasis between collaboration and competition often vary in different relationships (e.g. Bengtsson & Kock, 2000). In fact, many practical cases of coopetition have shown how the emphasis between collaboration and competition shift over time as the coopetitive relationships evolve within industries. Coopetition might appear as more sequential (where collaboration precedes competition or vice versa) or simultaneous (where collaboration and competition occur at the same time).

As a typical sequential example, collaboration in technology development and standardization is often followed with fierce competition and differentiation in branding and marketing in many ICT-related fields (e.g. M'Chirgui, 2005; Ritala et al., 2009). Indeed, in the global telecom industry, competition has been a major factor in ensuring the interoperability and thus creating a global competitive market for mobile communication (e.g. Fjelstad et al., 2004). Roy and Yami (2009) illustrate how French movie theater industry has been involved in strategic cooptation, where competitive and collaborative initiatives have been introduced in different phases of industry evolution (including both sequential and simultaneous appearances of cooptation). Similarly, Rusko (2010) discussed how cooptation has shaped the Finnish forestry industry, and how its dynamics have changed over time. Choi et al (2010) show how Australian wine makers have started to collaborate in improving the competitiveness of the whole national industry and continue such collaboration while competing fiercely with each other, as well as with other firms in the global market. Kotzab and Teller (2003) describe how European Grocery industry has implemented an initiative called Efficient Consumer Response (ECR), where competitors across manufacturing and retailers are involved in improving the overall logistics in the industry.

Summing up the aforementioned evidence, cooptation is a phenomenon which often emerges through the development of either collaboration or competition into a relationship between firms, and it evolves over time shaping the strategies and business models within different industries. Thus, cooptation is certainly a concrete issue for the long-term strategic management of a firm. In the following section, we turn the discussion into how cooptation can be used to realize individual firm's strategic objectives, and how this should be taken into account in the business model of the firm.

3. Cooptation strategy and business models

3.1 Key concepts

In the firm-level, strategy has been defined as *planning how an organization will achieve its goals* (Grant, 2005). In a similar fashion, the cooptation strategy of a firm can be defined as a plan of activities concerning collaboration with competitors, which aims to the realization of specific goals. Furthermore, in order to have a more concrete stance on

how coopetition strategies are actually employed, we utilize the concept of business model. Business model has been defined as a generic platform between strategy and practice, describing the *design or architecture of the value creation, delivery, and capture mechanisms the firm employs* (e.g. Teece, 2010). As a concept, business model has gained ground first in e-business, since it was able to capture the complex and varied (e.g. Amit & Zott, 2001). Given the context of our study (global book industry and the Amazon.com's role in the industry), we believe that the business model concept will be especially helpful to our analysis.

Summing up, coopetition strategy can be seen as a plan to achieve firm's strategic goals (i.e. competitive advantage) by collaborating with its competitors, while a related business model describes how such plans are actually executed to create customer value and capture a portion of profits generated by that value. Both of these perspectives are important for the setting of our study.

3.2 Advantages of coopetition strategy

In general, the mechanisms on how inter-firm collaboration creates value for an individual firm can be intuitively explained with resource-based arguments. In general, through interfirm relationships, firms integrate both supplementary and complementary resources in the attempt to create with resources not as valuable when used separately (e.g. Das & Teng, 2000). For the purposes of coopetition context, we apply the categorization of Ritala (2011), in defining the generic advantages that can be pursued through coopetition strategy, and in suggesting the types of business models to realize these. In particular, such advantages can be categorized as 1) increasing the size of the market or creating a new one, 2) efficiency in resource utilization and 3) improvement of the firm's competitive position.

First, coopetition can act as means for increasing the size of the firm's current markets or creating new ones. This can happen through collaborative development and innovation efforts in coopetition, for instance. Business models that tackle such issues are commonly seen in e-business (Amit & Zott, 2001) – examples revolve around ensuring compatibility issues to building completely new markets with competitors agreeing upon standards and common platforms. Typically, in these cases there are positive network effects involved, as well as sharing costs and risks – which both are possible to realize due to the certain

amount of resource similarity possessed by competitors (see e.g. Ritala & Hurmelinna-Laukkanen, 2009). When new markets are created, cooperation is not beneficial only to certain firms but for possibly a larger group of competitors. For example, a consortium (involving competitors), led by Sony, was behind the development on Blu-Ray standard, which eventually won the race for the dominant high-definition video standard. Thus, cooperation can be seen as a win-win situation for all the participants, if enough value is created. To sum up, business models enabling market development and creation are likely to be favorable to firms pursuing cooperation strategies.

Second, efficiency in resource utilization is an advantage sought for by many cooperation relationships. For instance, car manufacturers have a long history of collaborating in co-manufacturing (see e.g. Segresting, 2007). Such issues can be seen in other industries as well, such as in airlines (Oum, 2004) or grocery stores (Kotzab & Teller, 2003). Through these types of “scale alliances”, competing firms are able to bundle similar resources in their efforts to gain efficiency benefits and risk sharing (Dussauge et al., 2000). To conclude, business models able to increase the efficiency in resource utilization are favorable for utilizing cooperation strategies.

Third, firms can pursue to increase their own competitive position through cooperation. In line with this logic, Lado et al. (1997) suggested that *syncretic rent seeking behavior* combines both collaboration and competition in a way that firms collaborate with some competitors, while competing even more intensively with the rest of them. Indeed, a common strategy in e.g. ICT field is to compete with rival networks in the pursuit of increasing competitiveness for a certain cooperative ecosystem (Gueguen, 2009). For example, Gnywali and Park (2011) describe in detail how the fierce rivals Sony and Samsung have collaborated in LCD-TV market, and as a result increased their competitiveness against the rest of the competitive field. To sum up, business models able to harness collaboration between certain competitors in the search for increased competitive positioning in the markets are likely to be favorable when cooperation strategies are sought.

To realize one or several of the aforementioned strategic advantages of cooperation, the firm needs a business model, where certain competitors are positioned as collaborative

partners. Such development has naturally an effect on the competitors' business models as well.

3.3 Explicating business models in Internet business

In order to examine how the competition strategy could be executed through various business models, such models should be explicitly recognized first. In doing this, we rely on Timmers' (1998) seminal paper, wherein a broad classification of generic Internet business models is presented, based on the degree of innovation and the number of functions integrated within the business model. For analytical purposes, in Figure 1 this classification is adapted to include only the business models that are going to be explored in the case presented in this study. Building on Timmers' classification Mahadevan (2000) added a number of perspectives and extended the classification, however Timmer's classification remains to be the most cited and well-established in the field. For more discussion on Internet business models refer to (Afuah & Tucci, 2002) and to (Osterwalder & Pigneur, 2010) for gaining an understanding of the building blocks constituting a business model.

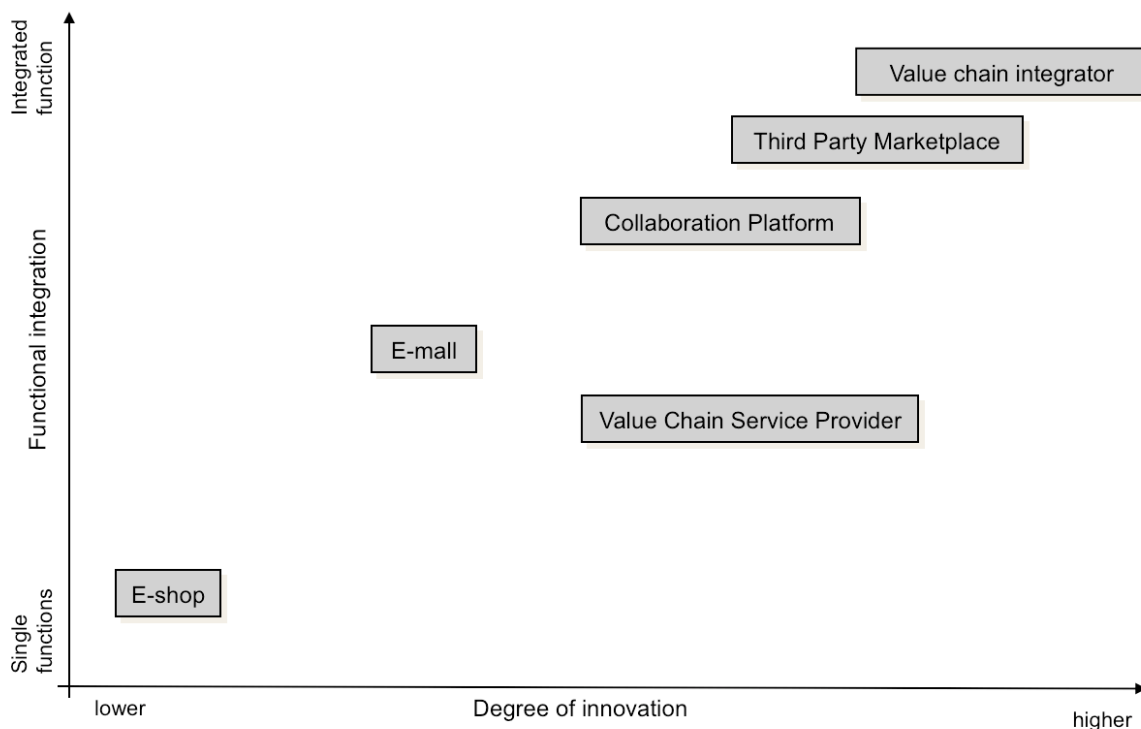


Figure 1: Classification of Internet business models (Adapted from Timmers, 1998)

Timmers (1998) defines the business models outlined in Figure 1 in the following way. An E-shop is an Internet sales outlet. An E-mall designates an aggregation or collection of E-shops. A Value Chain Service Provider supports businesses with e-commerce services such as logistics and electronic funds transfer. A Collaboration platform typifies a business model that provides a set of tools and an information environment for collaboration between enterprises. A Third Party Marketplace is characterized by a platform that provides a common marketing frontend and transaction support to multiple businesses. Finally, a Value Chain Integrator denotes a business model creates added-value by integrating multiple steps of the value chain.

By reflecting these business models to the potential advantages of co-competition strategy delineated in previous section, it shows that the business models situated towards the upper right quadrant are more prone to integrate functions, and also to enable participation from multiple actors. Indeed, recently it has been suggested that functional integration is highly valuable for the customers, and often involves bundling offerings across firm's boundaries (see e.g., Pynnönen et al., 2011). We suggest that these types of business models could help to execute co-competitive strategies enabling market creation, resource efficiencies, and competitive benefits by involving collaboration with competitive firms in the firm's business model in various ways. Thus, in order to analyze co-competition throughout the empirical part of the paper, references will be made to the business models defined in this section.

4. Methodology and data collection

We conducted a longitudinal, qualitative single-case study (Yin, 2003), which is suitable especially for the purposes of holistically analyzing somewhat unexplored phenomena (e.g. Eisenhardt, 1989). In doing this, we have used data triangulation in order to gather rich evidence on the business model of Amazon.com over time. The data gathering started from January 2009 and is still in progress. A variety of secondary data sources have been accessed, analyzed and synthesized in order to gain an accurate understanding of diverse facets of Amazon.com business model and in particular its co-competitive relationships with other firms over time. Such sources include:

- Amazon.com annual reports between 1997 – 2010 (“Amazon.com Investor Relations: Annual Reports and Proxies,”); presentations (“Amazon.com Investor Relations: Presentations,”) and news releases (“Amazon Media Room: News Releases,”)
- Books published on Amazon.com such as; (Spector, 2002), (Afuah & Tucci, 2002), (Kalpanik & Zheng, 2011), etc.
- HBR cases published between 2000 and 2010.
- Interviews with Jeff Bezos concerning Amazon.com cooperative strategies, for instance (Rose & Bezos, 2010).
- Journal articles such as (Heck & Vervest, 2007).

While the usage of primary sources has been generally seen as advantageous in getting in-depth evidence, there are several advantages in the using secondary sources. For instance, Ambrosini et al. (2010) recently suggested that teaching cases are an unexploited and a rich source of data that should be used when primary data is not available. They also suggested that reliability of such data is improved when researchers use reputable sources of teaching cases (we mainly use HBR cases here) and combine it with other sources to attain data triangulation. In our data gathering, we have pursued to do just this in order to form a rich picture of cooperative business models throughout Amazon.com’s history. Analyzing multitude sources of objective and subjective evidence has enabled us to combine evidence in a way that gives an overall understanding on the research topic.

In addition to the secondary sources, primary data has been gathered through a number of interviews with people from Amazon.com. Two interviews were conducted with the people working for Amazon.com in the year 2010. One of the interviewees was in charge of one of Amazon.com’s international websites and the other was working in an Amazon.com logistics center. As the interviewees were in different countries, the possibility to do face-to-face interviews did not exist. Therefore, the questions and answers were exchanged through email.

5. Case study: Amazon.com

In July 1995 Amazon.com began as an online bookseller and by September 1995, the company was selling \$20,000 per week. After nearly three years as an online bookseller,

the company began aggressively diversifying its offerings to include other product categories beyond books, initially adding music, videos, toys, and electronics. Such diversifications were followed by the launch of several other stores such as home improvement software and etc. In parallel with such product diversifications, in October 1998, Amazon.com expanded geographically by launching its first international sites Amazon.co.uk, Amazon.de through the acquisition of UK-based online bookstore Bookpages and German-owned Telebook (Applegate, 2002). The rationale behind such diversifications was Amazon.com's strategy of "get big fast" to turn Amazon into the biggest mass merchandiser or E-mall in the online world (Spector, 2002). In Figure 2 a timeline view of the major milestone events in Amazon.com is depicted.

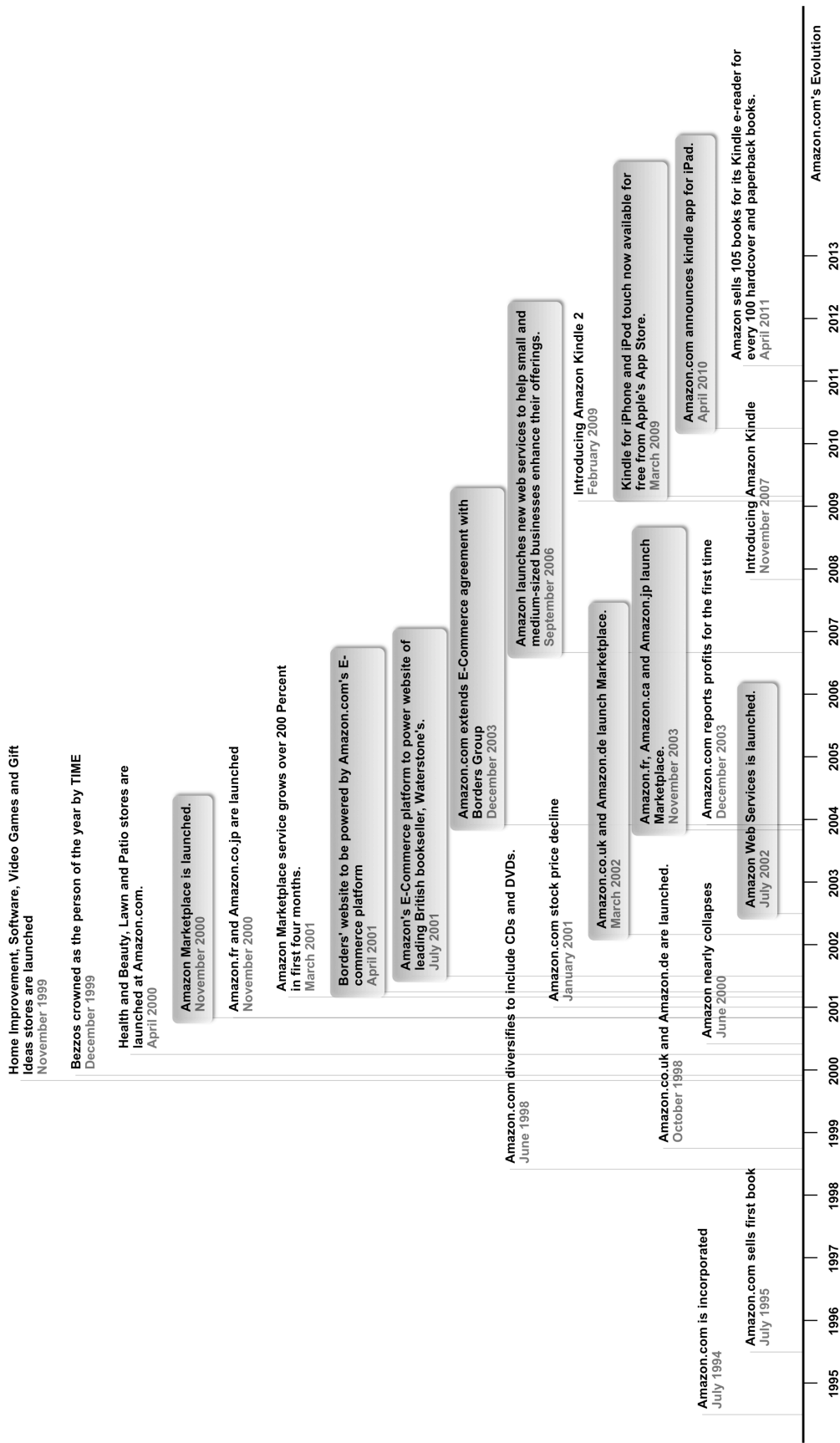


Figure 2: Amazon.com Timeline (Source: Amazon.com news releases)

While most dot coms operate on the basis of straightforward business models with pre-specified revenue streams, Amazon.com had continued to evolve its business model, pushing forward the boundaries of what could be accomplished on the Internet. (Collura & L. M. Applegate, 2000). The evolution of Amazon.com's business model rests heavily upon the cooperative strategies that Amazon.com has pursued over the course of time. In the timeline in Figure 2, we mark Amazon.com's cooperative strategies. These strategies fall in three basic groups:

- 1) The launch of Amazon Marketplace, this cooperative strategy helped Amazon.com evolve its business model from an E-mall to a Third Party Market Place.
- 2) The launch of Amazon.com Services and Amazon Web Services (AWS). By offering such new services Amazon.com further transformed itself to a Value Chain Service Provider and Collaboration Platform.
- 3) Finally, opening Kindle's (Amazon.com's e-reading device) proprietary format to the competing platforms, helped Amazon.com define a global format in the e-book market and develop an business ecosystem around it. This ecosystem known as Digital Text Platform allows author to self publish their contents in Kindle and make them available on Amazon Kindle device, as well as Apple's iPad and iPod. This launch of this platform transferred Amazon.com to a Value Chain Integrator, by creating added value for authors through integrating multiple intermediary steps in the publishing value chain such as publishing and distribution of books. (Kalpanik & Zheng, 2011).

In the following sections of the paper we provide further elaboration on these strategies and highlight their contribution to Amazon.com's survival, growth and evolution of Amazon.com. In so doing, as explained earlier we invoke evidence from the book segment.

5.1 Amazon Marketplace

Following its evolution from an online bookseller or E-shop to a consumer shopping portal or E-mall by diversifying its product offering through new store openings, Amazon.com extended its business model to become a Third-Party Market Place by launching Amazon Marketplace in November 2000. As illustrated in the Timeline of Figure 2, the Marketplace idea was then implemented in Amazon.com's international websites, UK and Germany in 2002, and France, Canada and Japan in 2003. We now

examine the contribution of competition to the implementation of this strategy as well as Amazon.com's survival and growth.

Figure 3 illustrates Amazon.com financial performance between 1997 and 2000. As it can be seen, after five years of its establishment, Amazon had not managed to achieve profitability and more importantly was distancing itself from it even further year after year.

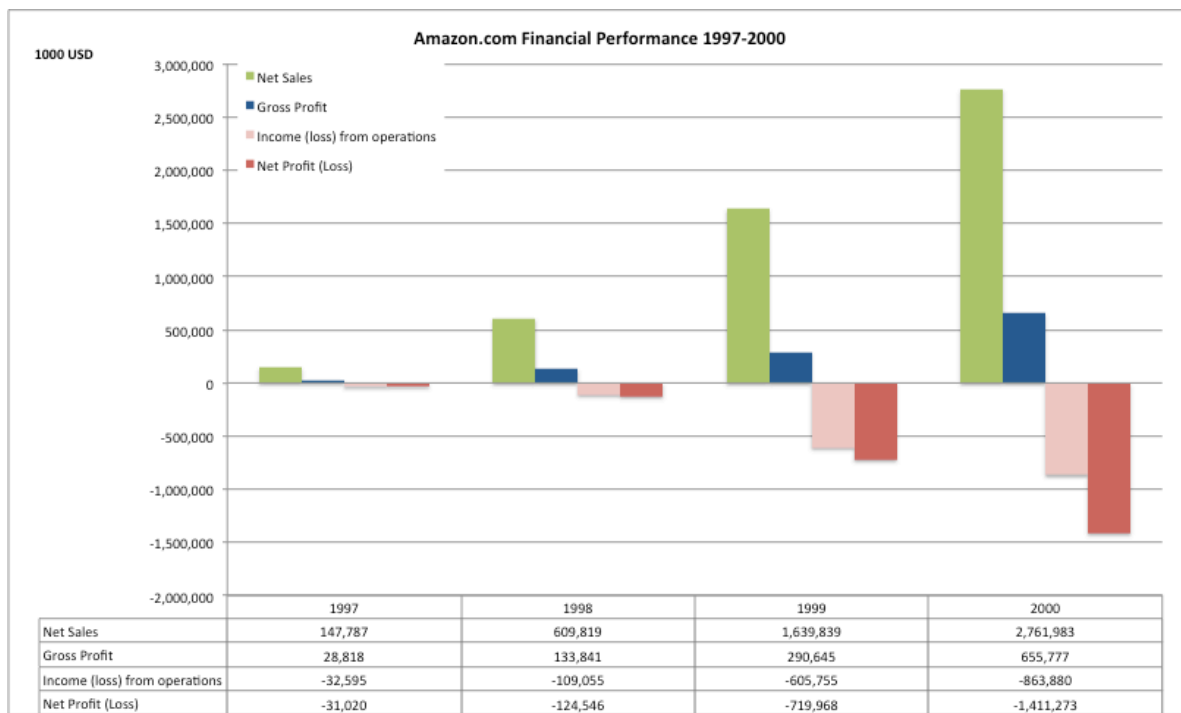


Figure 3. Amazon.com financial performance 1997 – 2000 (Source Amazon.com annual reports 1997-2000)

By the summer of 2000, Amazon's stock price had dropped by more than two-thirds and by the end of 2000, was down more than 80% of the beginning of 2000. Wall Street speculated that Amazon would file for bankruptcy or that another company would buy it. Analysts assert that if Amazon had not been able to borrow \$680 million in February of 2000, it would have run out of cash and gone bankrupt (L. Applegate, 2002), (L. Applegate, 2008).

Amazon Marketplace is the first instance of Amazon.com's cooperative strategies. Amazon Marketplace enables sellers to utilize the e-commerce services and tools to present their product alongside Amazon.com's on the same product detail page on Amazon.com's

website pursuing what Bezos phrased as “single store strategy”. In other words, a single page provides the customer a choice between purchasing a new product from Amazon.com or the new or used product from a seller (i.e. Amazon.com’s competitor) on the Amazon Marketplace. Figure 4 depicts the product information interface of the Amazon Marketplace as viewed by a customer who intends to buy a book.



Figure 4 Amazon Marketplace Product Information Interface

As it can be seen in the product information page Amazon’s price as well as the lowest price from other booksellers for the new and the used book is listed. More information about the vendors such as their ratings, shipping rates, return policies can be found on the supplier information page as shown in Figure 5.

amazon.com Hello, Arash. We have [recommendations](#) for you. (Not Arash?) **FREE 1-Day Shipping: Select Gifts for Dad Presented by DEWALT**

Arash's Amazon.com Today's Deals Gifts & Wish Lists Gift Cards Your Digital Items Your Account Help

Shop All Departments Search Books GO Cart Wish List

Books Advanced Search Browse Subjects New Releases Bestsellers The New York Times® Bestsellers Libros en español Bargain Books Textbooks

LOOK INSIDE!
The Computational Beauty of Nature
by Gary William Flake

The Computational Beauty of Nature: Computer Explorations of Fractals, Chaos, Complex Systems, and Adaptation (Paperback)
by Gary William Flake

< [Return to product information](#)

Always pay through Amazon.com's Shopping Cart or 1-Click.
Learn more about [Safe Online Shopping](#) and our [safe buying guarantee](#).

Price at a Glance
List Price: ~~\$45.00~~
Used: from **\$25.06**
New: from **\$32.95**
Have one to sell? [Sell yours here](#)

All **New** (29 from \$32.95) **Used** (38 from \$25.06)

Show New FREE Super Saver Shipping offers only Sorted by Price + Shipping

New 1-15 of 29 offers

Price + Shipping	Condition	Seller Information	Buying Options
\$33.50 & this item ships for FREE with Super Saver Shipping. Details	New	amazon.com. In Stock. Domestic shipping rates and return policy .	Add to Cart or Sign in to turn on 1-Click ordering.
\$32.95 + \$3.99 shipping	New	Seller: BookKnackrh Seller Rating: ★★★★★ 95% positive over the past 12 months. (186,975 total ratings) In Stock. Ships from SC, United States. Domestic shipping rates and return policy . Brand New Copy - Fast Shipping	Add to Cart or Sign in to turn on 1-Click ordering.
\$32.95 + \$3.99 shipping	New	Seller: Cicero's Books Seller Rating: ★★★★★ 99% positive over the past 12 months. (84 total ratings) In Stock. Ships from CA, United States. Domestic shipping rates and return policy . IN PRISTINE CONDITION	Add to Cart or Sign in to turn on 1-Click ordering.

Figure 5 Amazon Marketplace Seller Information Interface

Amazon Marketplace is, in effect the epitome of a cooperative inter-organizational relationship. To gain a better understanding we go back to the instance of this strategy in the book industry. The cooperation; Amazon provided third-part sellers with automated tools to migrate their catalogs of millions of used and out-of-print books onto the new single product pages inside the Amazon books tab, creating the opportunity for them to merchandise their products on the highly trafficked Web pages that historically had sold only Amazon products. Amazon even went further by providing a feature that allowed individual book buyers to list a single book item for sale on Amazon.com product page (see Figure 4, the bottom section).

While collaborating with the bookstores by providing them the infrastructure and the technical means to market and sell their products online, Amazon.com and the booksellers on the Marketplace are in a head-on price competition to win over customer

orders. CEO of the company, Jeff Bezos expresses his opinion about Amazon.com's cooperative strategy in Amazon Marketplace in the following way:

"...in 2000 we invited third parties to compete directly against us on our "prime retail real estate"—our product detail pages. Launching a single detail page for both Amazon retail and third-party items seemed risky. Well-meaning people internally and externally worried it would cannibalize Amazon's retail business, and—as is often the case with consumer-focused innovations—there was no way to prove in advance that it would work. Our buyers pointed out that inviting third parties onto Amazon.com would make inventory forecasting more difficult and that we could get "stuck" with excess inventory if we "lost the detail page" to one of our third-party sellers. However, our judgment was simple. If a third party could offer a better price or better availability on a particular item, then we wanted our customer to get easy access to that offer. Over time, third party sales have become a successful and significant part of our business. Third-party units have grown from 6% of total units sold in 2000 to 28% in 2005, even as retail revenues have grown three-fold."

Amazon.com's cooperative strategy on its Marketplace led to the generation of significant business and thereby considerable increase in net sales and gross profit helping Amazon.com to offset operating expenses and achieve profitability in 2003 for the first time after its establishment. For example, Amazon reported that third-party transactions accounted for 20% of its North American units sold in the second quarter of 2002. It can be concluded that with the help of this cooperative strategy in a matter of a few years Amazon managed to move from the brink of bankruptcy to become a world-class e-tailer with the biggest online store. Figure 5 shows the financial performance of Amazon.com between 2000 and 2003, capturing the impact of the launch of Amazon Marketplace.

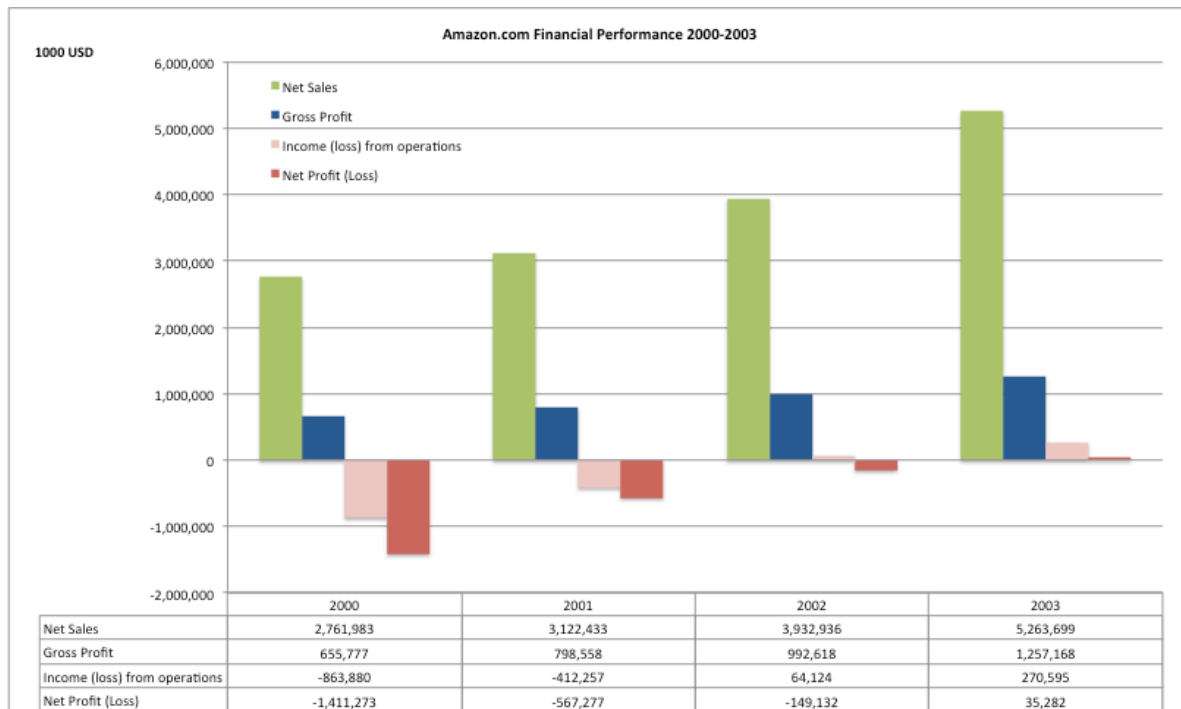


Figure 6 – Amazon.com financial performance 2000 - 2003

Such competition setting has been particularly beneficial to the small bookstores – prior to their online presence at Amazon Marketplace, they were having a tough time competing with Amazon.com and the book superstores such as Barnes and Noble and Borders. The period between 1993-1996 marks the launch of Amazon.com and the over 450 openings of book superstores with B&N and Borders accounting for 348. Within the same period, over 200 independent bookstores went out of business (Sanchez & Heene, 2003). Amazon Marketplace gave these booksellers the opportunity to place their offerings in front of the eyes of millions of potential customers.

5.2 Amazon Services

April 2001 marks the emergence of Amazon.com's second competitive strategy and the manifestation of its business model as a Value Chain Service Provider. Amazon.com made an agreement with Borders, one of its fiercest brick and mortar competitors, to launch and power Borders online operations on Borders.com. Based on the agreement, Amazon.com provides Borders with an e-commerce solution of technology services including inventory, fulfillment, site content and customer service in order to help Borders establish online operations.

The agreement between Amazon.com and Borders was in fact a part of a broader perspective. Amazon.com had realized that by the passing of time traditional retailers begin to realize how difficult it is to do a good job on the Web. With such insights, Amazon.com had perceived the creation of a whole new market as retailers become more interested in outsourcing their online presence. And it began to build resources and capabilities in order to deal with companies where Amazon.com would be responsible for significant portions of their online operation.

In 2003 Jeff Bezos, Amazon.com's founder and CEO, announced the launch of the subsidiary Amazon.com Services Inc., to help other retailers improve their online presence (Heller, 2003). "Amazon.com Services Inc." offers a variety of e-commerce services that allow retailers to set pricing and other transaction conditions, manage and coordinate the logistical processes for transfer of the physical or digital goods, assure the quality of the goods sold and verify the credibility of buyers and sellers and, as well as settle payments and arrange fund transfer (van Heck & Vervest, 2007).

As expected by Amazon.com, other companies started adopting Amazon.com e-com services, companies such as: Waterstone's, the U.K.'s leading specialist bookseller; Target Corporation, second largest retailing company in US; Marks & Spencer, Leading United Kingdom Retailer; Sears Canada, Canada's most popular retail website and etc. Amazon.com

Leveraging the capabilities and the experience gained from selling business services that grew out of the company's expertise in creating its own technical infrastructure, Amazon once more expanded beyond tangible consumer goods by introducing Amazon Web Services (AWS) in July 2002. By launching AWS in July 2002, in addition to the various facets of its business model, Amazon.com distinguished itself as a Collaboration Platform. In 2003, Amazon.com started turning itself inside out by selling its storage, computing, and other technology services to software developers.

The competition with Borders is central to the further evolution of Amazon.com's business model a Third-Party Market Place a Value Chain Service Provider and by the passing of time to a Collaboration Platform.

5.3 Amazon Kindle and the digital text platform

In November 2007 Amazon introduced Kindle, its e-reading device, to the market. Kindle reads books that are in Amazon.com's proprietary ebook format "AZW". In February 2009, Amazon.com introduced an enhanced model of Kindle to the market known as Kindle 2.

A major rival Apple challenged Amazon.com by releasing iPad in April 2010 as an e-reader device/tablet with the iBooks application that was developed for reading e-book contents in E-PUB format. E-PUB is the most well-established e-book format that had been adopted by several other companies in the e-reader market such as Sony.

Soon after the launch of iPad, Amazon.com and Apple started a cooperative relationship where Apple is distributing the e-book content of Amazon.com through the "Kindle App" on the iPad platform (see e.g. Kalpanik & Zheng, 2011). Prior to this, the Kindle app was made available by Amazon.com on Apple's iPod touch and iPhone, where Apple iBooks was already available.

In January 2010, Amazon.com announced that authors and publishers around the world can now use the self-service Kindle Digital Text Platform (DTP) to create content in Kindle format, upload and sell books in English, German and French to customers worldwide in the Kindle Store.

Capitalizing on its cooperative strategy with Apple, Amazon.com managed to increase the sales of the books in AZW format and establish AZW as one of the standard formats in the e-publishing market, right next to E-PUB (Anand, Olson, & Tripsas, 2009). This also led to the increasing popularity of Amazon.com's AZW format among the authors who could develop their contents for this platform and self-publish their books.

On May 20th, 2011 it was announced that Kindle books outsell print books on Amazon.com. Amazon announced that since April 1 2011, it sold 105 books for its Kindle e-reader for every 100 hardcover and paperback books, including books without Kindle versions and excluding free e-books.

It is intriguing to know that Amazon.com print books business dates back to 15 years ago while Amazon.com has been in its Kindle book business only for less than four years.

Amazon.com's latest milestone was surprising to industry observers. For Amazon.com, though, the milestone is proof that employing a cooperative strategy, it has successfully leapt from a print business to a digital one, a transition to a Value Chain Integrator, a business model that requires higher levels of innovation as well as integration of numerous business and technological functions. The emergence of this new business model has challenged most companies that sell media.

In line with its recent business model as an Value Chain Integrator, in November 2010, Amazon.com launched Amazon Studios, a new online business that invites filmmakers and screenwriters around the world to submit full-length movies and scripts to make money, get discovered and get their movie made.

6. Analysis of Amazon.com's cooperative strategies and related business models

Overall, with the help of the aforementioned cooperative business models, Amazon.com has evolved from an E-shop, to become the world's leading E-mall and Value Chain Service Provider and Collaboration Platform and finally to a Value Chain Integrator in approximately 15 years. The longitudinal case presented in our study suggests that cooperative competition can shape the business models of the central actors in industries, and that the cooperative interactions taking place can provide value for the industry participants in a way which would not be available through separate utilization of competitive and collaborative strategies. In the following we investigate a number of insights gained from the Amazon.com's case that help us formulate a number of propositions.

6.1 Letting your competitors win

An early game theoretic insight by Brandenburger & Nalebuff (1996) was that "letting your competitors win too" might be a feasible strategy. This has resonated in the success of cooperative business models of Amazon.com, where competitors have been able to create value for their customers through the Amazon Marketplace. This type of approach

has increased the size of the whole market for the electronic book sales. A similar issue is seen in the case of Kindle app for iPad.

Both cases show that it is can be beneficial to let competitors grow their markets as a part of firm's business model. The benefit comes from the firm's possibility to capture a portion of the added value which has been created (an integral part of any business model, e.g. Teece, 2010). Thus, we put forward the following proposition:

Proposition 1: Increasing the size of competitor's markets as a part of firm's business model provides potential for the firm to capture a portion of the increased customer value.

The same intuition applies also to completely different markets that were created for Amazon.com's rivals in the case of Amazon Services. By delivering a platform for Border's, Amazon.com was able to capture a portion of the unique value associated with the brand and customer base loyal to Border's. In fact, there are certainly some customer segments that want to be associated with Border's, rather than Amazon.com. Such segments are somewhat out of Amazon.com's reach, but value created by Borders can be partially captured by Amazon.com through the business model of Amazon Services.

Proposition 2: Creating new markets for competitors as a part of firm's business model provides potential for the firm to capture a portion of the newly created customer value.

6.2 Sharing costs and risks

Amazon.com had sunk a huge amount of investments and resources in developing its web-based platform. By transforming the platform to suit the needs of its competitors in the form of Amazon Services, Amazon.com was able to realize notable resource efficiency benefits. By sharing the platform, it was not only Amazon.com, but also others that could benefit from the sunk costs and resources, and as a consequence the overall ratio of benefits vs. costs was improved within the business model. Thus, the following proposition can be put forward:

Proposition 3: Creating new markets for competitors as a part of firm's business model provides potential for the firm to realize resource efficiency benefits.

6.3 Increasing competitiveness

Competitiveness against other (groups of) competitors was also increased in the case of Amazon Marketplace and Amazon Services. Some firms operate through utilizing Amazon.com's platforms and some through other platforms. Thus, certain segmentation within the global book markets can be defined in terms of competitive groups going head-to-head against each others. The same goes for Apple – by letting Amazon.com to offer content through Kindle App, the competitive position of both Apple and Amazon.com are increased against other book market industry competitors. Thus, the firms were able to utilize coopetition to increase competition against other rivals outside the scope of the business model (see e.g. Lado et al., 1997, on syncretic rent seeking behavior). Taking into account the aforementioned evidence we are able to suggest that in certain conditions, it is beneficial to improve the market potential of firm's competitors, especially when this improves the competitive positioning of the focal firm as well.

Proposition 4: Increasing the size of certain competitors' markets as a part of firm's business model provides potential for the firm to increase its own competitive position.

5. Conclusion

In this study, we have focused on how the advantages of coopetition strategy can be realized by involving coopetition (collaboration between competitors) though firm's business model. To examine this issue, we have conducted an in-depth case study of the evolution of Amazon.com's business model in the global book industry. The results provide evidence on how Amazon.com has utilized coopetition as a part of its business model in three particular phases since year 2000 up to this date. In particular, we found that Amazon.com has utilized coopetition strategy in a way which has lead to realizing market growth, resource efficiency and increased competitiveness. On the basis of these results, we suggest that it can be beneficial for a firm to grow the increase the size of its competitor's markets or create new markets for its competitors. This is an interesting result, since it is quite counterintuitive when assessed through the traditional competitive paradigm. Thus, the results contribute in the coopetition research stream by showing distinct aspects inherent in business models that can help to realize potential advantages of coopetition strategy.

Our results suffer a limitation in that they are bound in a particular industry. Being an Internet-driven company, Amazon.com has been able to utilize many advantages of cooperation strategy that are not necessarily available for other types of companies in other types of industries (e.g. network effects, platform sharing). Thus, in order to further test the propositions presented here, studies need to be conducted in other industries and with different types of business models. We believe, however, that the propositions presented are sufficiently universal, and that further research can provide some support for them, as well as interesting boundary conditions.

References

Afuah, A., & Tucci, C. L. (2002). *Internet Business Models and Strategies: Text and Cases (2nd ed.)*. McGraw-Hill/Irwin.

Amazon Media Room: News Releases. Retrieved June 26, 2011 from <http://phx.corporate-ir.net/phoenix.zhtml?c=176060&p=irol-news>

Amazon.com Investor Relations: Annual Reports and Proxies. Retrieved June 26, 2011 from <http://phx.corporate-ir.net/phoenix.zhtml?c=97664&p=irol-reportsannual>

Amazon.com Investor Relations: Presentations.. Retrieved June 26, 2011, from <http://phx.corporate-ir.net/phoenix.zhtml?c=97664&p=irol-presentations>

Ambrosini, V., Bowman, C. & Collier, N. (2010). Using teaching case studies for management research. *Strategic Organization*, 8, 206-229.

Amit, C. & Zott, R. (2001). Value creation in e-business. *Strategic Management Journal*, 22, 493-520.

Anand, B., Olson, P., & Tripsas, M. (2009). eReading: Amazon's Kindle. *Harvard Business School Case*.

Applegate, L. (2008). Amazon. com: The Brink of Bankruptcy. *Harvard Business School Case*.

Applegate, L. (2002). Amazon.com: 1994 - 2000. *Harvard Business School Case*.

Bengtsson, M. & Kock, S. (2000). "Coopetition" in business networks - to cooperate and compete simultaneously. *Industrial Marketing Management*, 29, 411-426.

Brandenburger, A. M. & Nalebuff, B. J. (1996). *Co-opetition*. New York: Currency/Doubleday.

Choi, P., Garcia, R. & Friedrich, C. (2010). The drivers for collective horizontal coopetition: a case study of screwcap initiatives in the international wine industry. *International Journal of Strategic Business Alliances*, 1, 271–290.

Collura, M., & Applegate, L. M. (2000). Amazon. com: exploiting the value of digital business infrastructure. *Harvard Business School Case*.

Das, T. K. & Teng, B.-S. (2000). A resource-based theory of strategic alliances. *Journal of Management*, 26, 31–61.

Dussauge, P., Garrette, B. & Mitchell, W. (2000). Learning from competing partners: outcomes and durations of scale and link alliances in Europe, North America and Asia. *Strategic Management Journal*, 21, 99–126.

Eisenhardt, K. (1989). Building theories from case study research. *Academy of Management Review*, 14, 532–550.

Fjelstad, Ø. D., Becerra, M. and Narayanan, S. (2004). Strategic action in network industries: an empirical analysis of the European mobile phone industry. *Scandinavian Journal of Management*, 20, 173–196.

Gnyawali, D. R. & Park, B.-J. (2011) Co-opetition between giants: Collaboration with competitors for technological innovation. *Research Policy*, in press.

Grant, R. (2005). *Contemporary Strategy Analysis, 5th Edition*. Oxford: Blackwell.

Gueguen, G. (2009). Coopetition and business ecosystems in the information technology sector: the example of Intelligent Mobile Terminals. *International Journal of Entrepreneurship and Small Business*, 8, 135-153.

Heller, L. (2003). Amazon sees retail service reshaping company future: new subsidiary taps core strength - Amazon Services Inc. Formed, *DSN Retailing Today*, June 23, 2003.

Kalpanik, S. & Zheng, C. (2011). *Inside the Giant Machine - An Amazon.com Story*. 2nd ed. Center of Artificial Imagination, Inc.

Kock, S., Nisuls, J. & Söderqvist, A. (2010). Co-opetition: a source of international opportunities in Finnish SMEs. *Competitiveness Review*, 20, 111-125.

Kotzab, H. & Teller, C. (2003). Value-adding partnerships and co-opetition models in the grocery industry. *International Journal of Physical Distribution & Logistics Management*, 33, 268-281.

Lado, A. A., Boyd, N. G. & Hanlon, S. C. (1997). Competition, cooperation, and the search for economic rents: a syncretic model. *Academy of Management Review*, 22, 110-141.

Luo, X., Rindfleisch, A. & Tse, D. K. (2007). Working with rivals: The impact of competitor alliances on financial performance. *Journal of Marketing Research*, 44, 73-83.

M'Chirgui, Z. (2005). The economics of the smart card industry: towards cooperative strategies. *Economics of Innovation and New Technology*, 14, 455-477.

Mahadevan, B. (2000). Business models for Internet-based e-commerce: An anatomy. *California management review*, 42(4), 55-69.

Osterwalder, A., & Pigneur, Y. (2010). *Business model generation: A handbook for visionaries, game changers, and challengers*. Wiley.

Oum, T. H., Park, J.-H., Kim, K. & Yu, C. (2004). The effect of horizontal alliances on firm productivity and profitability: evidence from the global airline industry. *Journal of Business Research*, 57, 844–853.

Padula, G. & Dagnino, G. B. (2007). Untangling the rise of coopetition. The intrusion of competition in a cooperative game structure. *International Studies of Management & Organization*, 37(2), 32-52.

Pynnönen, M., Ritala, P. & Hallikas, J. (2011). The new meaning of customer value: a systemic perspective. *Journal of Business Strategy*, 32, 51-57.

Ritala, P. & Hurmelinna-Laukkanen, P. (2009). What's in it for me? Creating and appropriating value in innovation-related coopetition. *Technovation*, 29, 819-828.

Ritala, P., Hurmelinna-Laukkanen, P. & Blomqvist, K. (2009). Tug of war in innovation – cooperative service development. *International Journal of Services Technology and Management*, 12, 255-272.

Ritala, P. (2011). Coopetition strategy – when it is successful? Empirical evidence on innovation and market performance. *British Journal of Management*, in press.

Rose, C. & Bezos, J. (2011). Retrieved May 16, 2011, from <http://www.youtube.com/watch?v=fAo0IfOCevA>.

Roy, P. & Yami, S. (2009). Managing strategic innovation through coopetition. *International Journal of Entrepreneurship and Small Business*, 8, 61-73.

Rusko, R. (2011). Exploring the concept of coopetition: A typology for the strategic moves of the Finnish forest industry. *Industrial Marketing Management*, 40, 311-320.

Sanchez, R., & Heene, A. (2003). *The New Strategic Management: Organization, Competition, and Competence*. Wiley.

Segrestin, B. (2005). Partnering to explore: the Renault–Nissan alliance as a forerunner of new cooperative patterns. *Research Policy*, 34, pp. 657–672.

Spector, R. (2002). *Amazon.com: Get Big Fast*. Collins Business.

Teece, D. (2010). Business models, business strategy and innovation. *Long Range Planning*, 43, 172-194.

Timmers, P. (1998). Business models for electronic markets. *Electronic markets*, 8(2), 3–8.

van Heck, E. & Vervest, P. (2007). Smart business networks: how the network wins. *Communications of the ACM*, 50, 29-37.

Yin, R. (2003). *Case Study Research: Design and Methods (3rd ed.)*. Sage Publications, Thousand Oaks, CA.