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Coopetition-based business models: The case of Amazon.com

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ABSTRACT

Coopetition (collaboration between competing firms) is a phenomenon that has recently captured a great deal of attention due to its increasing relevance to business practice. However, current research on coopetition is still short on explaining how the potential advantages of coopetition can be realized over time as part of an individual firm's business model. In order to gain insights into this, we conduct a longitudinal, in-depth case study on the coopetition-based business models of Amazon.com. We find evidence of three distinct coopetition-based business models: (1) Amazon Marketplace, (2) Amazon Services and Web Services, and (3) the collaboration between Apple and Amazon on digital text platforms. We conclude by forwarding several propositions on how value can be created and captured by involving competitors in a firm's business model. As a whole, the results contribute to the current understanding of how firms – as well as their stakeholders – can better benefit from coopetition.

1. Introduction

Firms increasingly collaborate with their competitors 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. Bengtsson & Kock, 2000; Brandenburger & Nalebuff, 1996). Coopetition typically evolves over time and shapes the competitiveness of firms, as well as the overall logic of industries (Andersen & Fjelstad, 2003; Choi, Garcia, & Friedrich, 2010; Roy & Yami, 2009; Rusko, 2011; Wang & Xie, 2011). Firms that are successful in their coopetition strategies and activities are thus well positioned to gain competitive advantages over other industry actors in various contexts. For instance, both Sony and Samsung have been shown to reap major benefits from applying coopetitive elements in their strategy in LCD-TV markets (Gnyawali & Park, 2011). A study by Kock, Nisuls, and Söderqvist (2010) illustrates that coopetition strategies have been beneficial for internationalizing small and medium-sized firms in Finland. Furthermore, a recent study (Peng, Pike, Yang, & Roos, 2012) shows how a focal firm in the Taiwanese supermarket network has been able to utilize coopetition over time to increase its performance.

The above examples show that coopetition can be a beneficial strategy for firms and that there are many ways and contexts in which such coopetition-related advantages can be achieved. However, the existing strategic and marketing literature has not examined this issue systematically from a perspective that would explicitly distinguish between different types of coopetition-related advantages and the mechanisms leading to such advantages. In this article, we suggest that using a business model perspective is helpful in understanding how an individual organization can affect the mechanisms of value creation and capture in a coopetition context. Thus, we approach the aforementioned research gap by introducing the concept of *coopetition-based business models*. While there are many definitions of a business model, most of them include either the explicit or implicit notion that business models should include the logic for value creation and capture. In fact, a business model has been generally defined as a platform between strategy and practice, describing the value creation and capture mechanisms at a firm's disposal (e.g. Amit & Zott, 2001; Chesbrough & Rosenbloom, 2002; Teece, 2010). There is thus a clear linkage between business models and coopetition, since value creation and capture are at the heart of both seminal (Brandenburger & Nalebuff, 1996) and more recent conceptualizations of how coopetition relationships could be analyzed (Gnyawali & Park, 2009; Ritala & Hurmelinna-Laukkanen, 2009).

In our formulation of coopetition-based business models, we take into account not only the perspective of the focal firm but also the whole coopetition logic in terms of simultaneously collaborating and competing actors related to a particular business model. In particular, we answer the question of *how a particular firm can increase value creation by involving competitors in its business model*, and *what the mechanisms are through which the firm itself can capture value in such settings.*

To provide evidence in this setting, we present a longitudinal, single-case study examining Amazon.com's coopetition-based business models since the firm's establishment. As a concept, the business model initially gained ground in e-business, since it was able to capture

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the industry's complex and varied nature (e.g. Amit & Zott, 2001; Shin & Park, 2009; Timmers, 1998). The empirical part of this study is also in this context, and thus we believe that the business model concept will be especially helpful for our analysis. In particular, the analysis is conducted on Amazon.com's coopetition in the global book industry. We have used data triangulation to incorporate rich evidence on the case: The sources include annual reports and financial statements, news releases, interviews, as well as existing research evidence (e.g., Harvard Business School cases, journal articles, books) on Amazon.com. The results of our study show that Amazon.com has successfully adopted coopetition-based business models in three particular phases over time — all of which have had a substantial impact on the global book industry, as well as on Amazon.com's survival, growth, and evolution.

The results contribute theoretically to the coopetition literature by integrating the business model perspective with the analysis of coopetition strategies of individual firms. This also adds to the existing business model conceptualizations, which do not usually explicitly include competitors within the business model of the firm. Empirically, we analyze how coopetition-based business models are utilized and combine these insights with theoretical development, resulting in propositions on the role of coopetition-based business models in value creation and capture. These results help to analyze the impact of individual firms' coopetition strategies from a systematic perspective and differentiate between value creation and capture, which has been called for in earlier coopetition research (Gnyawali & Park, 2009; Ritala & Hurmelinna-Laukkanen, 2009).

The remainder of this study is formulated as follows. First, we discuss the key concepts of the study. Second, we develop a theoretical background for the generic drivers of coopetition-based business models and provide concrete examples from the existing literature. This is followed by a longitudinal case study of Amazon.com's evolution in terms of coopetition initiatives. Next, we put forward a set of propositions on the rationale of involving competitors within the business model of a firm. Finally, we present our conclusions and suggestions for further research.

2. Coopetition and business models

Coopetition has been broadly defined as collaboration between competing firms or the simultaneous competition and collaboration between the same actors (Bengtsson & Kock, 2000). In this paper, we discuss coopetition as a simultaneously collaborative and competitive relationship, which takes place between two or more firms within the same value chain position, that is, between horizontal actors. The second key concept for this study is *business model*. In terms of the level of analysis, the business model can be seen as a structural template that takes into account the focal firm's transactions with its external constituents (Zott & Amit, 2008). This makes the concept especially suitable for the purpose of examining the rationale of coopetition. In fact, we follow the recent suggestions by Mason and Spring (2011) in analyzing the business model not only from the focal firm perspective but also as a larger construct incorporating the collaboration architecture of the firm.

More specifically, the 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 well as the changes in these processes over time (Amit & Zott, 2010). Therefore, the seminal view of coopetition as a means to create a larger business pie (value) together and simultaneously competes in dividing it up (Brandenburger & Nalebuff, 1996) fits neatly with the chosen business model perspective. In fact, the strategic logic of coopetition has been recently discussed as involving collaborative activities that jointly create value and firm-specific activities in capturing, dividing, and appropriating that value (e.g., Gnyawali & Park, 2009; Ritala & Hurmelinna-Laukkanen, 2009). Thus, for analytical purposes we focus on two facets in coopetition-based business models: value creation and value capture. In terms of the former, we focus on processes through which value is created and delivered to the customers through a coopetition-based business model, and in terms of the latter, we discuss processes that lead to the eventual capturing of value and profit-taking from the part of an actor utilizing a coopetition-based business model.

Even though coopetition may sometimes develop in the form of emergent strategies (Mariani, 2007; Padula & Dagnino, 2007), we suggest that it is useful to build a suitable business model in order to fully reap the benefits of coopetition. This is because coopetition relationships are typically hard to manage (e.g. Tidström, 2009) but, when successful, involve potential for major rewards in terms of increased innovativeness or profitability (Hamel, 1991; Quintana-García & Benavides-Velasco, 2004; Walley, 2007). To employ the coopetition strategy in practice, we suggest that it is useful to have a *coopetition-based business model* where certain competitors are positioned as collaborative partners. This type of business model describes how coopetition-related plans are executed to create customer value and how the firm is able to capture a portion of the profits generated by that value. In the following section, we discuss four generic drivers for coopetition-based business models and examine how these models can facilitate the creation and capture of value.

3. Generic drivers of coopetition-based business models

The mechanisms explaining how inter-firm relationships and networks help to create and capture value can be intuitively explained with resource-based arguments (see e.g. Dyer & Singh, 1998; Lavie, 2006). In general, through inter-firm relationships, firms integrate both supplementary and complementary resources in an attempt to create more value than if they were used separately (e.g. Das & Teng, 2000). Furthermore, the role of both relational and firm-specific resources essentially determines how much value can be created and who is in the position to appropriate it (Dyer, Singh, & Kale, 2008; Lavie, 2006). The value created in inter-firm relationships and networks can be linked to explorative issues such as innovation, market expansion, and differentiation, or more exploitative issues such as cost reduction, through joint production and distribution (Möller & Rajala, 2007).

In the coopetition context, the resource-based logic has certain specific characteristics that should be discussed here. In particular, it has been suggested that through joint resource utilization, firms in coopetition can collaboratively create value, while they capture or appropriate a portion of that value by utilizing their firm-specific resources (Ritala & Hurmelinna-Laukkanen, 2009). Even though this is the case in any inter-firm relationship, in coopetition this issue is pronounced because the competitive positioning between the firms suggests that value capture takes place (at least potentially) in the same domain. In addition, the division between relational and firm-specific resources may not be clear-cut in coopetition. This is because the role of resources used to create value in coopetition is paradoxical, as the same resources can often be used for both competition and collaboration (Bengtsson & Kock, 2000); conflicts may thus emerge (e.g. Hamel, 1991; Tidström, 2009). Therefore, a coopetition-specific business model, which takes these issues into account, would be useful in avoiding conflicts over value capture and, at the same time, maximizes joint value creation through the utilization of shared supplementary and complementary resources.

The suitable coopetition-based business model naturally depends on the goals and motivations behind coopetition, and therefore there is no one "basic model" in this context. Indeed, earlier research has identified several different motives and drivers for coopetition strategy in different levels of analysis (see e.g. Gnyawali & Park, 2009, 2011; Ritala, 2012). Building on these sources, as well as on the resource-based rationale outlined above, we divide the generic drivers of coopetition-based business models into four broad types: (1) increasing the size of the current markets, (2) creating new markets, (3) efficiency in resource