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The Startup journey through a case study: Amazon



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*“A mia mamma, grazie alla quale sono la persona che sono e
alla quale posso dire solo un sincero grazie”*

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Abstract

That of Startup is a little-known topic, to which sometimes is not given enough importance. However, the study found that they are a first step in developing new businesses, with the aim of growing more and more. Precisely for this reason, the Amazon case was addressed in the dissertation, born just as a startup inside a garage, it shows how a firm born as start-up can grow over the years and achieve significant goals after years. Financial supports are needed to achieve the objectives set from the beginning of the birth of a startup, in fact the issue of investors was addressed, in particular the Business Angel and the Venture Capital to understand how entrepreneurs can start a startup since the beginning and how they should operate within a startup. The topic of startups in Italy was also addressed, in particular the Restart-Italy case, the percentages of startups updated to 2020, and the entrepreneurial ecosystem in Italy.

CHAPTER 1

1.1 What is a startup?

A start-up is the launch of a new business, which is born for the first time to gradually achieve success. More precisely, the term start-up means the first stage of any type of company, the main objective of which is the success, followed by the innovation through growth plans and Business plan to understand the project's viability and predict economic results. The starting point of any start-up is the business idea, which can be defined as a set of strategic, organizational and financial choices and the evaluation of the market sector, in which the business is interested, by making an accurate demand and supply analysis, from the planning until the start of the business.

The most important market sectors are the launch of high-technology, dynamic and innovative businesses. In addition, startups play a very important role in the growth of employment, innovation, competition and a strong potential for exports (Cassar, 2004).

The term startup indicates a company aimed at creating innovative products and services, in fact in the early days of the creation of startups it is necessary to focus on the Business Model, which has three characteristics:

1. Repeatable, or a business created to last and to "repeat" over time, allowing the company, through the launch of a new product or service, to obtain repeatable revenues over time.
2. Scalable, i.e. revenues grow exponentially, exceeding the costs that the startup must bear.
3. Profitable, it is the main point for every company and therefore for every startup. Creating profit, which however for some types of startups does not lead to "money", but to "population", therefore profitable also from the point of view of being able to make itself known as a startup.

According to what reported by Chioda, et al. (2016), Paul Graham, the venture capitalist and cofounder of Y Combinator, the world's most important startup accelerator, which provides seed funding, says:

“Thousands of businesses are born every day, but only a small part are startups. Restaurants, barbers, plumbers are not startups. Why? Because they are not designed to grow quickly. A search engine like Google is.”

In general, in a startup, especially at the beginning, there may be problems and if the entrepreneur or the team cannot solve these problems, the business will almost certainly end or the start-up will fail. There are several reasons why a startup is successful or not. From studies conducted over the years, the reasons why a startup may or may not be successful are to be found in factors that are external to the company, such as economic performance, inflation, market demand and supply, and in internal factors such as motivation, entrepreneurial spirit and business organization (Mehralizadeh and Sajady, 2006).

In general, the elements that lead a startup to failure generally occur in the early years of their lives (Watson, Hogarth-Scott, and Wilson, 1998).

1.2 Funding and evaluation method of a start up

There is not a way to understand how to finance a start-up, being it subjective, each start-up needs different financial requirement to establish the new business, which will be based on the size, development and risks set through the project.

Any start-up needs financial requirements (Gualandri e Venturelli, 2011a):

- **Pre-seed:** at this stage, founders are developing the innovative idea and the funding may come from personal contacts (family or friends).
- **Seed:** although this stage is characterized by the presence of the business, the risk of business is

still high. Investors may be at this stage Crowdfunding or Business Angels.

- **Startup:** at this stage, the idea must be implemented in the market.
- **Early stage (Growth):** in this phase, the business has been already launched, thereby it is necessary to gain funding to tackle any costs. The investor may be the so-called Venture Capitalists, who finance the business through high-risk investment called Venture Capital. This phase can be further divided in:
 - **Early growth and sustained growth:** it is represented by the expansion phase of the project, which ends with the achievement of its natural dimension.

During the seed, start-up and early stage there are four main components of financial needs:

1. initial investments which are mainly intangible, because in the first phase of investment in research and development, patenting, market analysis and management selection;
2. structural investments, which are mainly tangible investments, such as buildings, plants, machinery, but many times structural investments also include intangible investments such as advertising and promotional launches;
3. investments in net working capital, or the sum of warehouse and receivables from customers, in order to start the business or for the initial life of the company;
4. the extra investments necessary for subsequent development.

In general, the need to start a start-up, therefore the first point does not have very high costs, while the purchase of properties mentioned in the second point involves a high expense that occurs immediately before the launch of the start-up initiative. Instead, the investment in working capital occurs when you start producing and selling, therefore at the same time (Gualandri and Venturelli, 2011b).

Precisely, the financing can be internal or external (Frid, Wyman, Gartner, Hechavarria, 2016).

The **internal financing** consists of the contribution of economic resources by the shareholders (company) or the owner (individual firm), therefore the capital remains in the company without a refund deadline. Internal financing is a capital at full risk because a possible closure of the company would imply the liquidation and therefore the sale of each asset with a related collection which will be used to repay any debts. Therefore, the initial financing from the partners or the owner will return only if, after having paid all the debts, there will be a residual. However, as explained by Frid, Wyman, Gartner and Hechavarria (2016) studies show that low-wealth entrepreneurs are less likely to obtain external funds, and they receive lower amounts when they do.

The **external financing**, indicates funds temporarily that firms obtain from outside of them. In this case, there is a deadline for the repayment of the loan and an interest must be paid on it, which is previously agreed, regardless of the economic results achieved by the company. The deadline for the restitution of the funding can be: short term, meaning that the deadline cannot exceed 18 months (such as account/current credit openings), medium term, when the term is between 18 months and 5 years (like bond loans) or long term if expiration goes beyond 5 years (like mortgages or leases).

Very important is to understand that another significant element that make Internal and external financing different is that with the external financing the business risk can be indirect only, as reimbursement is always expected at maturity.

For the initial evaluation of a start-up, management has three categories available for evaluation:

1. Methods that are based on future financial flows for the start-up;
2. A comparison with market values;
3. The qualitative methods.

For the use of these financial methods there are two approaches used for the construction of the flows:

- The Discounted Cash Flow Method for estimating future cash flows. This is generally used when the company has already started in a market.
- The venture capital method based on the Return on investment (ROI) at the exit, generally used in the Seed phase and therefore when there is the first entry of new members into the Equity.

(Ballarin and Zanin, 2020)

1.3 Types of start up

In an article in the blog on the startups of the Wall Street Journal (The accelerators, 2013), the entrepreneur Steve Blank of Silicon Valley analyses at least six different types of start-ups: Lifestyle Startups, Small-Business Startups, Scalable Startups, Buyable Startups, Social Startups, Large-Company Startups.

1. Lifestyle Startups: Work to Live Their Passion

These types of startups were instituted to make the founder able to live his passion. For this reason, Steve Blank compares lifestyle entrepreneurs to Californian surfers who give surfers lessons to pay their bills for the pleasure to stay a little more in the water.

2. Small-Business Startups: Work to Feed the Family

The most start-up are in this category, in which the entrepreneur manages the business directly. In other words, entrepreneurs invest their capital (or the capital borrowed from friends or family or even from banks) in business, by employing family members, friends or locals. In most cases, these businesses are barely profitable, but these entrepreneurs are defined by Steve Blank as the best in representing entrepreneurship as they work with passion and dedication creating new jobs.

3. Scalable Startups: Born to Be Big

The main reason that underpin the introduction of these types of start-up is the aim to become large companies in carefully designed provided with well-defined projects, growth paths, roles and distributed responsibilities, operational divisions intended to manage future volumes of customer growth. This type of startup has been the story of Google, Facebook, Amazon but also of Italian companies such as Omnitel which has now become Vodafone.

4. Buyable Startups: Acquisition Targets

These types of startups constitute a business model by offering a product, but more often a service that solves a problem or creates strategic solutions for large existing multinational companies. A famous example of this type of startup is the case of WhatsApp, which was acquired by Facebook for 19 billion dollars.

5. Social Startups: Driven to Make a Difference

They are social startups led by entrepreneurs who think their interests without envying other sectors in terms of ambition, passion and desire to achieve the objectives previously set. More precisely, what distinguishes these startups from Scalable Startups is the social objective without interest related to market shares or wealth creation for the founders. They can be non-profit, for-profit or hybrid, which offers a product or service of social utility. An example of these is Wikipedia.

6. Large-Company Startups: Innovative or Evaporate

These types of startups born after having realized that the life cycle of a large company is over. In fact, for Steve Blank the lean approach is no longer to be reserved only for startups: these are rules and policies that are very useful even for large, already consolidated companies. It is not enough to focus on the execution and improvement of the existing model but to survive in the new economic context, large companies must aim for a completely innovative approach by creating new business models through the

reminder of new organizational and new skills. This idea represents, in fact, the start-point of the need to create "incubators" within large companies.

1.4 Strategy of startups

The decisions and actions decided during the start-up's birth have long-term consequences that affect the company itself. The planning of the start-up process is essential to achieve certain objectives: an adequate development of the business idea and the assessment of risks and opportunities for success. A global start-up strategy is the result of three main elements (Gualandri e Venturelli ,2011b):

1. The Business idea is the first step that occurs during the establishment of a successful business and arises from the primary need of the customer who has not yet been satisfied. The business idea can arise through many factors or episodes such as work experiences, interpersonal relationships, study path. As mentioned previously, to start a start-up the starting point is the Business Idea which must be innovative and new. The idea is that it is a novelty able to attract the attention of customers. At the basis of the business idea, there must be motivation, such as professional achievement, scientific progress, promotion and social consensus. They are all indispensable elements for the growth of an entrepreneur. Therefore, motivation is a very important element that provides the entrepreneur with the ability to overcome difficulties (thus finding problem-solving) that he may encounter during his career. The Business Idea must be feasible in all its parts. The entrepreneur must undertake a deep analysis on the product system, on the company structure and on the market segment in which he wishes to enter (Business Plan).

2. The aspiring entrepreneur may not have a talent for starting his own business, not necessarily he has talent as a perfect successful manager, but the achievement of this position is followed by a long path of growth, even if empirical research has highlighted that the entrepreneur with a strong, decisive and successful personality helps the development of the company. From a psychological point of view, some qualities such as the ability to manage numerous people, know how to face risks, take responsibility, be open to new solutions are some strengths of an entrepreneur. Instead, from a managerial point of view, the entrepreneur must have a good level of skills and knowledge related to the type of business he wants to open. Certifications such as graduation or courses, or work experience are important for the aspiring entrepreneur. Often the entrepreneur ignores some managerial aspects, in this case, we speak of a knowledge gap that can represent an obstacle for the start-up growth.

3. The business plan is described by Steve Blank as a document that defines the size of an opportunity, the problem that need to be solved, and the solution provided by the new venture (Butler, 2014, 38-41). Moreover, according to Gualandri, Venturelli (2011b) it is the sum of the business idea and aspiring entrepreneur, which responds to five needs:
 - Define the product system: what you want to produce, dispense and sell.
 - Define the market segment: the customers to whom you want to sell.
 - Define the company structure: how to produce and sell.
 - Define a communication policy: it conveys its image to customers

and maintains a positive reputation for the company.

- Define the financing policy: how and who finances the idea.

CHAPTER 2

2.1 The Role of investors

There are different type of investors, as they can have different characteristics and have financial resources that invest in different projects based on certain analyzes, intending to identify the startups that can give the greatest profit. These analyzes are conditioned by portfolio choices, which allow to reduce the risk to the various funds (Wright and Robbie, 1998; Mason and Harrison, 2002).

In this second part, the present dissertation will focus on the most important: Business Angel and Venture Capital.

2.2 Business Angel

Business Angels (BA) are investors, identified by the literature as informal as invest their economic resources (Mason and Harrison, 2002).

BAs are distinguished from Venture Capital and other types by their unique ability to use their resources to invest in a project, in most cases consisting of new and growing businesses with which they have no family connection (Maxwell, Andrew L., Scott A. Jeffrey, and Moren Lévesque, 2011).

BAs are born because they have important experience in several similar sectors and thus, they decide to make their financial resources and their technical knowledge that they have gained during their professional career available to entrepreneurs. The decision to invest in new projects is linked to an advanced moment in the life of these specialists. BAs have financial income or other sources of economic livelihood that allow them to have a continuity of investment independent of the results deriving from this activity. In fact, according to a study by Mason and Harrison (2002), about 15% of the BA's assets are invested in this type of activity, which have the aim of creating an economic return deriving from the capital gain resulting from the buying and selling of shares of startup (Kelly and Hay, 2003).

There are two types of BA: "passive" and "active". The first invest their money, monitoring only the actions of entrepreneurs. The second ones perform both an investment and monitoring activity and are in contact with entrepreneurs, as they are likely to help them with advice. Furthermore, BAs generally focus mainly on the sector they come from (Prowse, 1998).

BAs are numerous and from a single point of view they have a lower economic capacity, thereby startups can turn directly to BAs for investments up to 500 thousand dollars (Van Osnabrugge, 2000).

BAs avoid bad investments as they always try to make a profit, even if minimal. (Benjamin and Margulis, 1996).

BAs are contacted only after the pre-seed phase (i.e. after the founders have already developed the innovative idea and the financing has been obtained from their family) because their financial resources are insufficient so that they can continue the development of the startup.

Moreover, very important are the so-called Business Angel Networks (BAN) which have been introduced to have more information and collaboration, as they allow to reduce the information gap that is created between supply and demand by having a reduction of research costs (Mason and Harrison, 1997).

Few BAs work without the support of a network. They have to bear several costs, which prevents them from being as efficient as BANs (Mason and Harrison, 1997).

There are different types of BAN, and according to Mason and Harrison (1997) we can identify three different types:

- BAN introducers of conventional services
- BANs offering financial services
- BANs that connect people and organizations

Another important aspect is the substantial importance of softer factors (Maxwell et al, 2011; Paul et al, 2007), meaning the potential building of a relationship between entrepreneur and investor.

The BA target is linked to new and growing businesses with which they do not have a family connection, these businesses, or startups, are structured in different phases and have a strong need for investment. BAs come into play dealing with the seed or early phase by focusing on a limited area of startups related to the sector they come from. However, they are likely to look even at the geographical proximity in order to have greater empathy with entrepreneurs. During the entire period in which a BA invests, we would have different time horizons, investment decisions and pressures (Van Osnabrugge, 2000).

BAs have positive results with an IRR (Investment Rate of Return) between 0% and 49% compared to institutional investors (Mason and Harrison, 2002).

The agreements between BA and entrepreneurs are very complex and leads to high agency costs, which must be always managed with a contract (Williamson 1993 and Simon 1955). To avoid problems and reduce the complexity during the implementation of the contract, the model of these investors is based on the building of trust that aims to eliminate the opportunisms of both parties (Fairchild, 2011).

The formulation of agreements may follow two models, called respectively incomplete contracts and the principal-agent approach. Usually, the agreements made by the BAs are articulated through the first model, which defines a contract that considers all the transaction costs (Van Osnabrugge 2000).

The BA process can be explained through some important points such as familiarization, screening, bargaining, managing, harvesting (Paul et al, 2007).

The familiarization involves an analysis of the entrepreneur and the investment which consists of a phase in which the business plan is prepared that must not be longer than 3 pages and a phase in which banks and lawyers come into play.

The screening provides a better knowledge of the entrepreneur. In this phase, the use of BAN can be useful to speed up the transition to the next phase of the agreement.

Bargaining is a type of formal procedure that involves the drafting of a contract, in which the investment methods, the activities of BAs and entrepreneurs are decided. The managing provides for the signing of the contract. Regarding the BA exit methods, meaning the exit of the BA from the equity of the startup in which has been invested, very frequent is the transfer of shares to other companies, to other shareholders or new investors. While IPOs are very rare (Maxwell et al, 2011) and generally introduced for companies with very high growth to manage the costs associated with this process (Bygrave and Timmons, 1992).

2.3 Venture Capital

Venture Capitalists are startup funders who enter the phase following the early stage in the life of startups, and they have the primary objective of increasing their financial resources to make their business growing (Ghini, 2012).

Also, these funds provide direct monitoring of the actions that are implemented within the company (Wright and Robbie, 1998). Venture Capital (VC) funds are financed by other economic entities, which re-invest their money to achieve very high returns. Unlike BAs, these investors rely on a third person focusing more on a financial as well as strategic aspect. Among the various VC funds, we can have two types of "suppliers": "Captive" and "Independent".

While Captive suppliers refer to Banks and/or Insurances which internally develop investment activities managed by other entities, namely Venture Capitalists. The independent ones refer to VC funds which have a limited life and therefore a very high commitment, equivalent to a high capital gain (Wright and Robbie, 1998).

The main objective of the Venture Capitalists is "to invest in new companies, which intend to radically change the market, however having little information available" (Wright and Robbie, 1998). However, Wright and Robbie (1998) define the VC as that investor who can know how to identify, invest and monitor new companies.

Moreover, the Venture Capitalist must be able to manage and reduce the risk (therefore minimize it as much as possible) which is associated with the uncertainty of the results of the companies for which he has invested and to do this he will try to implement within his investment portfolio those companies that by activity and risk help it to reduce the total risk (Wright and Robbie, 1998; Mason and Harrison, 2002).

The funds implemented with the Venture Capitalists do not have an infinite life, but limitations between 7 and 10 years (Sahlman, 1990). This limitation is necessary to create time horizons on the various projects in which the fund wants to invest. A study of Sahlman (1990) confirms that a good Venture Capitalist looks for limited funds to be able to plan investments with very high economic returns. The risk and uncertainty with a startup for VC funds can be high (Williamson, 1993).

Six different groups of factors emerged from research carried out by various scholars that define the right characteristics required by the Venture Capitalists (Mac Millan et al., 1986): the entrepreneur's personality, experience, characteristics and function of the use of the product or service, the type of market, financial characteristics, the criteria for the composition of the management team. These characteristics are very important, as the administrators of the VC funds admire an entrepreneur who knows how to manage their business better, knowing how to manage their chances better, in fact, if it is not chosen the first time by the VC it will be difficult to get financed on a second occasion (Prowse, 1998).

As VCs manage the funds of other economic entities, they implement a contract that provides for a principal-agent approach (Van Osnabrugge, 2000).

The risk is defined as internal and external. Internal risk occurs when all the problems are related to agency issues, while external risks occur due to market uncertainty. These types of risk are managed by the VCs through a contract, but if risks are high it is convenient to manage in other sectors (Wright and Robbie. 1998).

The drafting of a contract consists of several phases such as confidentiality agreements, meaning the stipulation of a contract where VC and entrepreneur deal to keep company values and details confidential, the letter of intent, which is drawn up when the parties expect a positive conclusion of their relationship, the due diligence process, meaning the process practised throughout the negotiation, but mainly after the letter of intent, to find the value in the current state of the company and its future potential, useful for a better understanding of the functioning of the company market, for the evaluation of the business plan and for analyzing future economic and financial trends; the conclusion of the negotiation which ends with the signing of a contract; usually, signing the contract takes about six months, but the time frame may be less. VC funds are likely to do not stop at a single investment towards the startup, but there are more financial resources sold which make the relationship between the entrepreneur and the Venture Capitalist a strong point in order to reduce the risk for the Ventur Capitalist (Sahlman, 1990).

Regarding the way to exit, some models occur with a listing on the stock exchange (IPO), with the acquisition by another investor, with a buyback of the entrepreneurs, a secondary sale, or a written-off (Cumming and Johan, 2008).

The first two cases are the most advantageous for both parties because it is possible to resell the shares of the VC fund to a potentially large group of buyers (IPO) or a new buyer. In the case of the buyback, the entrepreneurs buy back the shares of the fund (Sahlman, 1990) or another investor buys the shares through the secondary still rises to a market price. In the case of the written-off, the shares of the fund are cancelled.

CHAPTER 3

3.1 The startup in Italy: Restart-Italy case

Since late 2012, Italy adopted an organic regulation, useful for promoting the birth and growth of new innovative high-tech companies, through the introduction of the decree-law 18 October 2012, n. 179.

From the "Restart-Italy" report, created in 2012 by a task force of twelve experts selected by the Ministry of Economic Development, the Law of 22 December 2012 n.221 has been introduced, within the Decree-Law 179/2012 called "Further urgent measures for the growth of the country "(articles 25-32), which regulates a series of incentives and practices to promote sustainable growth, technological development, youth employment and an innovative ecosystem, to attract new capital.

These articles can be considered the core of a real "Italian Startup Act" and the main reason that underpins the introduction of this type of law is the need to reach a specific notion of "new technological enterprise": the innovative startup.

The introduction of the Startup Act leads to the promotion of a model of sustainable growth, including both small and medium-sized enterprises, large corporates but also suppliers of specialized services such as incubators and accelerators. The Startup Act has been affected over the past 7 years by various regulatory updates, such as the decree-law of 24 January 2015, no. 3, the law 11 December 2016, n. 232 (Budget Law 2017), and Law 30 December 2018, n. 145 (Budget Law 2019) which have enhanced and expanded the offer of facilities for an innovative startup.

The Italian Startup Act refers only to those companies that have a significant technological innovation component. The definition of startups is found in art. 25 of the legislative decree 179/2012, paragraph 2, according to which, capital companies (also constituted in a cooperative form) can access if their shares or shares of equity are not listed on a regulated market or multilateral trading system, and which have the following requirements:

- have been established for less than 5 years (60 months);
- from the second year of activity as an innovative startup, they have an annual production value of less than 5 million euro;
- did not distribute profits;
- have as their exclusive corporate object the development, production and marketing of innovative products or services with high technological value;
- do not arise from a merger, company split or following the sale of a company or business unit;
- are headquartered in Italy, in another country of the European Union or other states;
- adhering to the agreement on the European economic area, maintaining at least one production site or branch in Italy;
- the innovative content of the startup is identified by at least one of these elements:
 - the expenses used in research and development are equal to 15% of the higher value between turnover and annual costs;
 - the workforce consists of at least one-third of PhD students or postdocs, or for at least 2/3 of members or employees who possess master degree;

- is the owner, custodian or licensee of a registered patent (industrial property right) or owner of the rights of a registered original computer program (software).

(Ministero dello sviluppo economico, 2019)

3.2 The Italian context

Since the last edition of the quarterly monitoring report (available online) dedicated to the demographic trends and the economic performance of innovative startups, the report presents data updated to March 31, 2020 (in collaboration with Mise and InfoCamere, with the support of the Camere di Commercio).

Commerce (Unioncamera), therefore at the end of the 1st quarter 2020 the number of innovative startups existing in Italy registered in the Companies Register amounted to 11.206, which saw an increase of 3.0%, with 324 units more than in the fourth quarter of 2019 (31 December 2019). While the share capital is growing by 60.1 million euros compared to 31 December 2019 (in percentage terms of 10.3%) which amount at 643.3 million euros at 31 March 2020, the average capital is 57,408 euro per firm (7.1% increase compared to the fourth quarter of 2019). On the other hand, by analyzing the data relating to the various startup sectors, we found that 73.3% of innovative startups provide services to businesses, with 35.6% of software production and IT consultancy, 13.8% of R&D activities, 9.0% information service activities; 17.9% of startups operate in the manufacturing sector with 3.2% manufacturing machinery, 2.8% manufacturing computers, electronic and optical products; finally 3.3% of startups operate in commerce.

Furthermore, 1,494 innovative startups present a prevalent number of women, while youth innovative startups (under 35) are 1,962 (17.5%).

Focusing on the geographical distribution of startups, Lombardy is the region with the largest number of innovative

startups, which amount to 3,038, corresponding to 27.1% of the national total of startups. Lazio is in second place with 1,268 startups, corresponding to 11.3%; Emilia-Romagna follows with 934 startups corresponding to 8.3% and with only 6 startups more than Campania which counts 928 startups. Veneto follows with 921 startups, Basilicata with 113, Molise with 83 and finally, Valle d'Aosta with 22 innovative startups only. However, the region with the largest number of innovative startups is Trentino Alto-Adige where 5.3% of all the companies established in the last five years are an innovative startup. Finally, we have Valle d'Aosta with 5.2%, Friuli-Venezia Giulia with 5.1%, Puglia and Tuscany with just under 2% and Sardinia with 1.7%.

Focusing on the provinces' ranking, Milan presents the highest number of innovative startups, precisely 2,198 (19.6% of the national total). Rome follows with 1,147 innovative startups, approximately 10.2% of the national total. Below 1,000 we have Naples with 439 startups, Turin with 385 startups and Bologna with 312 startups.

On the other hand, considering the employment profile, 4,728 innovative startups with at least one employee is equivalent to 42.2% of the total, according to the latest data provided by INPS. The data provided at 31 December 2019 recorded 14,324 people, an increase of 521 people.

Finally, the average number of employees for innovative startups is 3.0, compared to 3.2 registered at 31 December 2019; while innovative startups with no more than five years have about 5.4 startups. In the first quarter of 2020 the members of the innovative startups show an increase of 3.8% seeing 57,731 members.

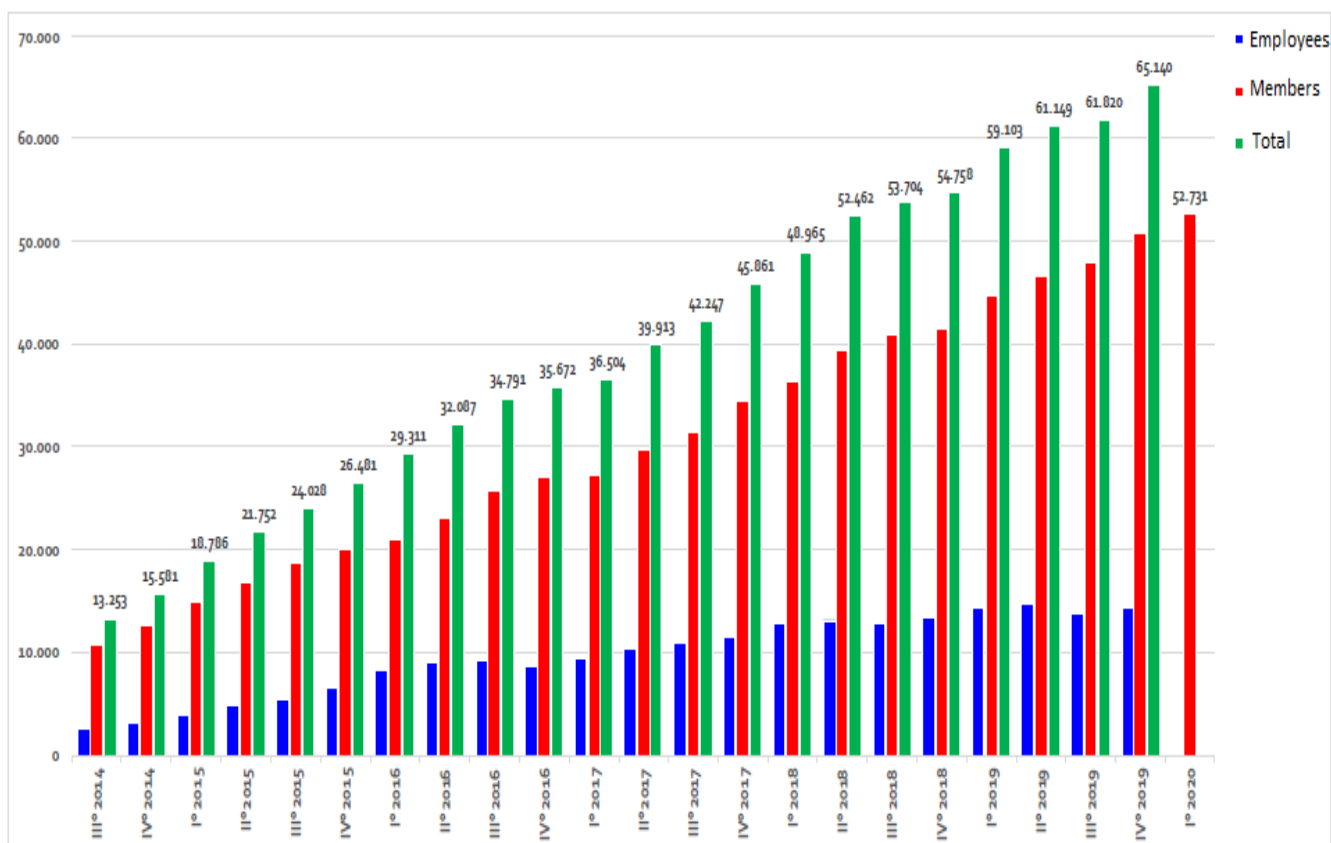


Figure 3.1: Total members and employees in innovative startups (source: processing of Infocamere data)

Regarding the economic and financial indicators, we must refer to the latest available budget, i.e. the 2018 budget which sees only 58.8% of the startups registered on March 31, 2020, the percentage equals 6,589 out of 11,206 startups. From the 2018 financial statements, it has been seen that the average production value per startup amount to 169 thousand euros, is down 7 thousand euros compared to the previous quarter, while the total operating income recorded in 2018 is also negative for 80.4 million of Euro.

A parameter present in startups is the high degree of fixed assets on the net assets which is equal to 25.1%. While as regards the ROI and ROE profitability indicators of the innovative startups in the 1st quarter of 2020, negative values were recorded, if we only consider the startups in profit then these indices are better than those reported by the other

capital companies, with a ROI of 0.12 versus 0.006 and ROE of 0.26 versus 0.17.

(Ministero dello sviluppo economico, 2020)

3.3 The business ecosystem in Italy

From a study conducted by the Digital360 Study Center (2019) in which the 360Entrepreneurial Index is presented, Italy in 2018 is in twentieth place among the twenty-eight countries of the European Union for the effectiveness of its start-up ecosystem, therefore very far from comparable economies such as the United Kingdom, Germany and France.

However, compared to 2017, it presented an important recovery going up 5 positions, thanks to the increase in stock market transactions or purchases from large companies and to the increase in startups that have reached 1 billion dollars from a value view.

360 ENTREPRENEURIAL INDEX

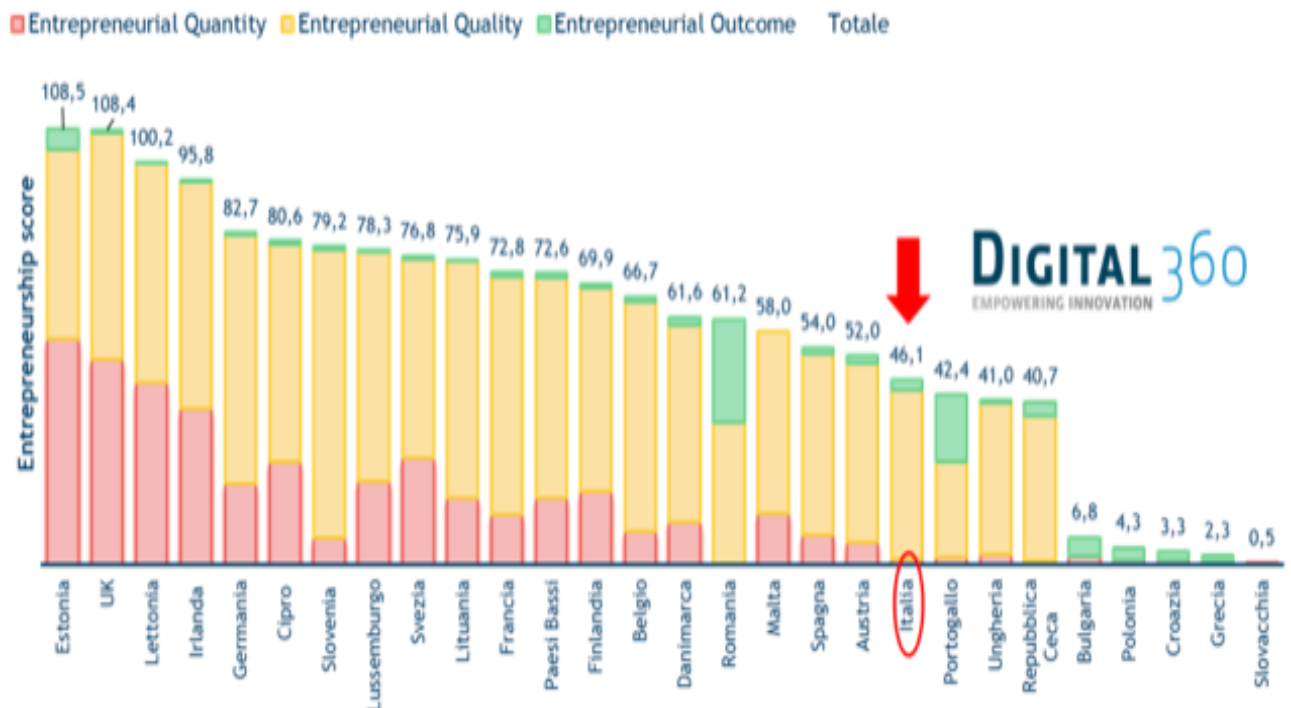


Figure 3.2 360Entrepreneurial Index ranking (source: Digital360)

The 360Entrepreneurial Index is based on three indicators which are used to analyze the three phases of entrepreneurial development:

1. Entrepreneurial Quantity Index: it measures the total amount of equity investments in the business system to finance a startup;
2. Entrepreneurial Quality Index: it is used only for investment transactions exceeding 5 million euros;
3. Entrepreneurial Outcome Index: it is used to measure the number of startups that are listed on the stock exchange or are purchased by large companies (Exit) and for the number of startups that reach a total value of at least 1 billion dollars (Unicorns).

Andrea Rangone, CEO of Digital360 says:

“The improvement in all three dimensions considered by the 360Entrepreneurial Index highlights how Italy has managed to trigger a virtuous circle in the entrepreneurial ecosystem, which is leading to increase both the number of resources invested in start-ups, that quality, that is, investments in scaleups, the number of Exit and Unicorns. A sign of improvement in the effectiveness of the entire entrepreneurial process: with the increase in investments in start-ups, in fact, also the financing operations of the scaleups are growing, which feed, after some time, the Exits and the Unicorns , which allow you to attract new funds and to reinvigorate the cycle with a higher magnitude. To catch up with other countries, however, Italy must continue to support its start-ups even with adequate political decisions: the measures in the latest budget law go in this direction, but the issuing of decrees must be accelerated implementation”.

By studying the three indices individually, in the Entrepreneurial Quantity Index, Italy is in twenty-second place thanks to equity investments, while in the Entrepreneurial Quality Index it is in nineteenth place thanks to important scaleup financing operations that took place in 2018, which

have foreign investors finally, in the Entrepreneurial Outcome Index it is in seventh place.

The 360Entrepreneurial Index allows to have an accurate study that sees a positive correlation between the level of entrepreneurship and the degree of the well-being of European countries.

CHAPTER 4: THE AMAZON CASE

4.1 The Amazon's story

Amazon was founded on the fifth of July, 1994 by a thirty year old young man named Jeff Bezos.

Bezos, a graduate of Princeton, moved to Bellevue in the state of Washington leaving the role he held as vice president of D.E. Shaw of New York.

The first sign of Amazon.com appeared for the first time in the Bezos garage written with a blue canister on a white plastic rectangle.



Figure 4.1: Jeff Bezos' first Seattle office (source: Corriere della Sera)

Initially Bezos chose the name Cadabra, but was not convinced of this name and thought that a name that began with the letter A could be useful to appear in the various lists in first place, so after a short period Amazon was renamed, with reference to the Amazon river and the Amazon region.

Amazon was born with the intention of selling books online all over the world, so the goal was to create a bookcase without shelves.

The business plan for that type of project involved 5 years of losses, so Bezos decided to invest all his savings and those of

his parents for the first phase: the startup phase, investing \$ 300,000. Some investors decided to invest in this company, but the first profits were seen in 2001.

From the sale of books online, Amazon began to grow by selling also CDs, films, software, consumer electronic devices, video games, toys and household utensils. In 1998 Amazon was one of the most important e-commerce in the world (Simonetta, 2019).

In 1997 Bezos was increasingly inclined to bring Amazon to the global level, so he decided to proceed with the listing on the stock exchange, which was a great success for the company since it reached 54 million dollars and the annual turnover increased by 900% (Stone, 2013).

Amazon has its headquarters in Seattle, the United States, but it also has many offices for its activities, such as Beijing, Paris, Dublin, Milan, Luxembourg and Tokyo. Also, there are several centers in Italy, Mexico, England, Germany, Spain, Holland, China, Japan and India, all focused on the development of the software needed to manage company activities and the very large number of warehouses and sorting centers.

Over the years, Amazon has grown more and more every day, exponentially increasing the number of products it makes available to its customers, in fact, in addition to paper books, today it also includes CDs, films and TV series on DVD, software, electronics, toys, household utensils, clothing, personal care cosmetics, beauty products, gardening products and much more, so on Amazon you can find almost everything you could find in a shop (Stone, Milan 2013).

The Amazon website allows you to make safer purchases thanks to the possibility to write feedback both to the seller and to the item. For example, if you buy a book, the buyer can write a review by expressing a personal opinion on the book, or by expressing his opinion on a scale of one to five. While if we talk about products such as clothing, for example, the reviews could help us to understand if the material has a good quality, or if the sizes are true, all accompanied perhaps by a photo of the product. In addition, the feedback, as mentioned above, can also be left to the seller, in order to understand if

it is available as a seller even if maybe a different product has been sent from the one ordered. In any case, "verified purchase" will appear next to the review, because each user who purchases a product on the Amazon site must first be registered. Thanks to these feedbacks, Amazon can understand which products are most appreciated by customers and how satisfied they are with their purchase.

Very significant is also the possibility to bookmark an article, as this helps Amazon understand which advertisements to focus on and so that they can create personalized suggestions for each user (R.L. Brandt, 2012).

Many of the purchases made on the Amazon site are attributable to associates that are equivalent to independent sellers who receive a commission from Amazon because on their website they direct some customers through a special link to the Amazon site, in this way if the customer buys thanks to the redirection of the link then Amazon recognizes a commission to that seller. With this system in 2003 Amazon had reached one million associates (Stone, 2013).

In November 2000, Amazon Marketplace was launched, created specifically to give anyone the opportunity to sell directly to the end user, then for third party sellers.

Amazon takes a commission percentage for each sale made by a third-party seller. Each third-party vendor who joins this program pays a fee, manages the prices of each product on their own and can use Amazon's shipping policy or not:

- Fulfillment By Merchant (FBM): Shipping costs are managed by the seller;
- Fulfillment By Amazon (FBA): In this case the seller relies on the Amazon distribution centers which take care of the shipment of the product to the final consumer.

(Cosimi, 2017)

Amazon's main goal since the early days has been to grow more and more, managing to sell products in many geographical areas and increasing its products offered.

Amazon has also carried out a series of acquisitions, agreements and integrations with other companies, today, in fact, Amazon owns the Twitch.tv video streaming platform, the cinema and television database Internet Movie Database (purchased in 1998).

In addition he had also purchased a company that had the purpose of storing data, called Jungle.com, the same year he purchased a website, PlanetAll, in which a series of online groups interacted, and with the purchase of the website they were absorbed also most of the employees (Scotti, 2015).

In 1999 Amazon purchased Alexa Internet which deals with internet traffic statistics, also in 1999 it purchased an e-commerce service platform called accept.com. In the same year, Amazon decided to launch online auctions on the various products, but it was not a great success. In 2001 it decided to try to relaunch the online auction service, obtaining greater consent and approval from customers thanks to the service Amazon Marketplace that gave participants the opportunity to sell used products, books, CDs, DVDs and many other products online. In the same year, Amazon started thinking to improve the service for its customers by providing it with easier authentication and purchase system and introduced a credit card linked to the Visa circuit.

In 2003, Amazon continued to focus on publishing, in fact it developed the sale and publication of e-books, thus introducing the Kindle reader which allows you to read e-books or electronic books through a screen that does not tire the view because it has the appearance of a paper page (Savitz, 2011).

A year later, in 2004 Amazon decided to purchase the Chinese e-commerce site joyo.com. And having become active in the film production sector, in 2004 the company produced five short films in collaboration with Ridley Scott Associates.

Two years later, in 2006 he also started to deal with the tourism sector thanks to the collaboration with Slide Step, a company that deals with travel, in particular it deals with

offering the customer the most convenient offer by comparing the various prices.

In the same year, the Amazon Grocery service was born, with the aim to sale home accessories and long-life food. Furthermore, during these years, the increasing need to obtain a faster delivery service lead the company to launch Amazon Prime, which, with a fixed annual fee, allows customers to get products in 24 hours. This service had an annual fee of \$ 20, but each user had the chance to try the service by having a one-month free trial of Amazon Prime, after which most customers made the annual subscription (Tuttle, 2013).

In Italy Amazon started operating in 2010 and in 2011 it opened its first distribution centre in Piacenza, thanks to which Amazon has expanded its offer of e-books in Italian, launching, in fact, also in Italy in 2011 Kindle reader that allows anyone to self-publish and sell their texts through Amazon.

Since 2002, it has implemented a paid cloud computing service through the Amazon Web Services platform, used by many customers, including fast-growing start-ups.

Amazon Studios has been active within Amazon since 2010, implemented for the development of short films, feature films, television programs and cartoons, all of these contents are distributed through Amazon Video, the new video streaming service (Fritz, 2012).

In 2014 a group of people worked in Amazon's research and development laboratories in Silicon Valley and Cambrige to develop Amazon Echo, an Amazon device used to listen to music and to perform voice commands through the Alexa voice assistant (Brustein, 2016)

4.2 The success of Amazon

Amazon immediately put customers first, trying to meet their expectations, which is why customer service was born, which offers impeccable service to its customers every day.

Furthermore, there has been a high increase in the products available for sale, therefore finding products that are difficult to find online (Stone, Milan 2013).

Another important aspect that led to Amazon's success was the delivery system adopted, the agreements implemented with the delivery companies and the investment in means of transport, in fact thanks to this, if the order exceeds a certain threshold, the free shipping.

All these services have made Amazon a reliable and efficient company, able to satisfy users quickly, in fact, most people if they have to look for an article on the internet will surely check first on the Amazon site given the range of products present (Tuttle, 2010).

4.3 Amazon and its long-term strategy

As mentioned at the beginning, although Amazon was born inside a garage, it managed to reach a high position as an online platform thanks to the business strategy acquired from the beginning by Bezos despite the fact that for the first few years it agreed to face losses temporary, continuing to work and study how to make profits.

Amazon has recently made significant profits thanks to the success of Amazon Web Services. Since 1994, for about twenty years, the closing of the financial statements has always been at a loss, but investors have always trusted the company, in fact despite the fact that the financial statements were at a loss, the share price on Wall Street has always grown gradually (Clark, Young, 2013).

Jeff Bezos' goal from the beginning was to achieve a leadership position in the market and try to grow the company in the long term, therefore without immediately seeing profits. Amazon Prime contributed to the growth of competitors, in fact, according to some analysts' estimates, their number exceeded sixty million in 2016 (Leonard, 2016).

Obviously as soon as Amazon Prime was launched the company went into a loss, from some estimates it was found that for each new user registered with the company it cost more than the subscription itself, about 90 dollars a year (Tuttle, 2013), so Amazon lost a lot, over a billion dollars a year, but thanks to this it has managed to increase the number of members (Woo, 2011).

Another idea that Bezos had was to implement its product range. In addition, in addition to dealing with online sales, Amazon managed (and still manages) a marketing platform, and has a network of warehouses. It also acts as publisher and production house, also deals with fashion, hardware production and cloud computing services for data storage.

In addition, Amazon opened the first physical bookstore in Manhattan's Upper West Side in 2017, next to Central Park, on the third floor of the mall called Time Warner Center.

This new Amazon store focuses on the books that received a score higher than 4.8 on the Amazon.com website, in fact Jeff Bezos' library is based on nearly twenty years of sales data.

In general, book scores are on a computer label that is updated in real time.

The books are priceless and to become aware of the latter, you must use the Amazon app on your mobile phone or use the electronic scanners that are present inside the store.

Inside the shop there are about three thousand titles because it was decided to display the books frontally, compared to the classic bookstores, in order to show the cover in the foreground (Morris, 2017).

In 2018 a new physical store was opened in one of the liveliest neighborhoods of New York, SoHo, on Spring Street between Crosby and Lafayette Streets called Amazon 4-star because everything for sale inside the shop is classified as 4-star and beyond, so it's a best seller, or new and trendy on Amazon.com.

Inside the store there are many categories, in particular the most popular ones on the Amazon.com site, such as electronic devices, household items, toys, books and video games.

The average rating of items in the 4-star Amazon store is 4.4 stars. It is also possible to know the review received online for each product, so we find the number of comments, the price and the discount for customers who have an Amazon Prime subscription, so those who have subscribers have an advantage as they are on the Amazon.com website.

The store is organized differently from the classic stores, this store takes up the logic of e-commerce by resuming the "most desired" or "frequently sold together" section from the site, these features make shopping easy and fun and different from normal stores (Rovelli, 2018).

In the same year, Amazon launched a new type of store, a supermarket, different from the previous ones and with a particularity: free of checkouts and cashiers.

It's called Amazon Go, and it's located in Seattle. Since there are no checkouts and cashiers inside the shop there are cameras and sensors, but one wonders how the payment takes place inside the store.

In the first place to do the shopping you need to download the Amazon Go app on your smartphone, create an Amazon account and at the entrance of the store you have to identify yourself using your smartphone, scanning a code, after which you can start doing the shopping easily choosing the items to buy and go out without queuing at the checkout because everything taken from the shelves is recognized by the sensors and is automatically charged to our Amazon account. The system implemented by Amazon is really efficient, so much so that if a customer picks up an item from a shelf, but then changes his mind and puts it back on the shelf, the system detects it and is not charged for anything because the system is able to reverse the product (Maci, 2019).

In 2019 a new Amazon Go store was inaugurated in New York, but this time with a particularity: you can also pay with cash, in this case you do the shopping and in the end an employee scans the products purchased and then accepts the payment in cash (Mogg, 2019).

The purchase of Whole Foods, a US food company, has allowed Amazon to open new supermarkets, other than

Amazon Go, because they are larger and because they offer a wide range of food items, therefore it offers fresh food products such as fruit, vegetables and meat, but also cereals and carbonated drinks. This new supermarket, called Amazon Go Grocery, covers an area of 996 square meters in the Capitol Hill neighborhood of Seattle, so compared to supermarkets Amazon Go has about 700 square meters more.

The method of how to shop and pay does not change and remains unchanged, therefore it is the same as Amazon Go (Statt, 2020).

4.4 Amazon in Italy

The first absolute contact that Amazon had with Italy dates back to August 3, 1995 when a Genoese customer received, after an order, delivery by Amazon directly from one of the United States warehouses (Munafò, 2010).

On November 18, 2010, Amazon.it was officially opened, which quickly involved Italians in purchasing online, reaching a large number of orders, so much so that it was necessary to open a sorting center, which was opened in Castel San Giovanni in the province of Piacenza in October 2011, with an area of 100,000 square meters and over 1600 employees.

Over the years many offices have been opened in Italy: development centers, distribution centers, customer services and sorting depots. The customer service office was opened in Italy, in Cagliari, in 2012.

According to an article in Il Sole 24 Ore in 2019, four logistics hubs are expected to open in 2020, in particular in Colleferro (Rome), Santarcangelo di Romagna, Castelguglielmo (Rovigo) and Spilamberto (Modena) (Netti, 2019).

Another article from the Sole 24 Ore of 2020 announces the opening of one of the two distribution centers that were planned in 2019, the distribution center of Castelguglielmo and San Bellino (Rovigo) and the warehouse in Colleferro (Rome).

For these two new openings the total amount of the investment is 140 million. These new centers will employ around 1400 people (Netti, 2020).

Another important milestone for Amazon in Italy was the Business-to-business (B2B), or rather the business relationships between two or more companies. B2B on Amazon.it is a section reserved for both large and small businesses that thanks to this new platform will be able to view all the new customized options for their company. B2B in Italy is worth 335 billion euros. This new section is a sort of platform for trade with over 250 million items such as professional equipment, machinery and precision instruments.

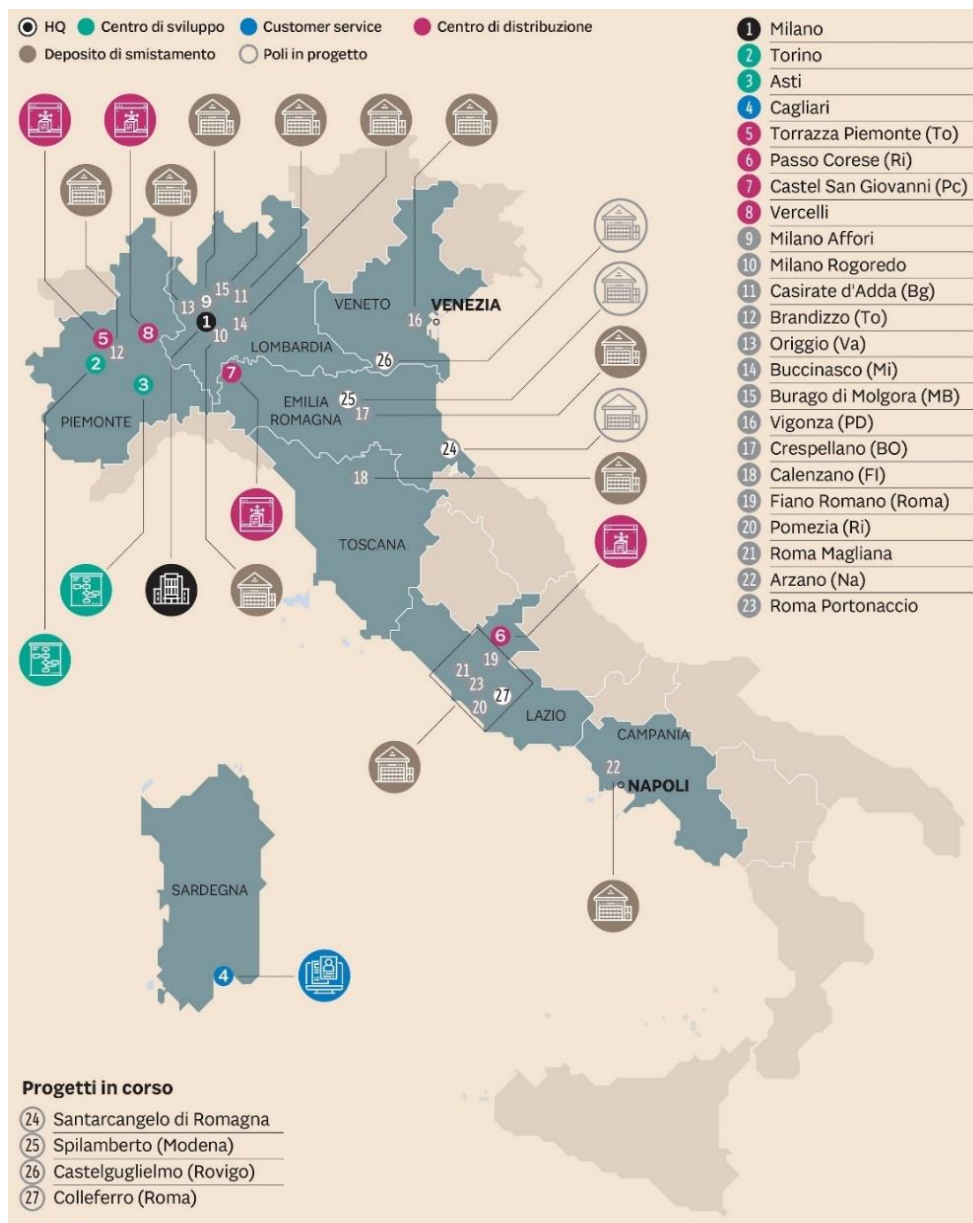


Figure 4.2: Amazon offices in Italy (source il Sole 24 Ore)

Any type of company in any sector can access this service and find the most suitable things for their company, such as automotive companies can find spare parts, accessories and much more, or restaurants find a huge range of products for the kitchen, even schools find accessories such as scientific equipment.

According to Riccardo Marancina, scientific manager of the Billing Observatory of the Polytechnic of Milan:

"The launch of Amazon Business in Italy represents an important boost for the development of B2B e-commerce in our country. Amazon's business functions now open up new possibilities for both buying and selling to Italian companies, with the strength of an operator global that combines the great offer with a service and customer orientation typical of B2C (Business-to-consumer), with a potentially disruptive impact in the sector. If Amazon manages to maintain its customer-centric vision, also offering businesses the effectiveness of services already known by consumers, from customer service to the possibility of returning or replacing products, the volumes may be important. A significant boost to the growth of a sector which in any case is destined to experience a physiological increase in the coming years " (Ardu, 2018).

4.5 The achievements of Amazon

In September 2018 Amazon had a very high growth in the last twelve months, reaching one trillion dollars, the second company to have achieved this goal after Apple. So for Jeff Bezos this is a historic milestone (Simonetta, 2019).

In 1997 Amazon, when it was publicly listed, only reached \$ 54 million.

In the last three months of 2019 Jeff Bezos saw profits reach 3.3 billion dollars, a nice milestone considering that the forecasts had expected to reach a maximum of 2.9 billion, considering that the expenses and investments to optimize have increased shipping and delivery systems.

To contribute to this remarkable climb, in addition to online sales, were also the advertising that managed to cash in \$ 4.8 billion, but also a high increase in new users who decided to subscribe to Amazon Prime, reaching 150 million (Il messaggero, 2020).

4.6 Amazon's failures

Amazon in its years of life beyond the many successes has also had failures.

Bezos in a 2014 interview with Henry Blodget of Business Insider said:

“I’ve made billions of dollars of failures at Amazon.com. Literally billions of dollars of failures. You might remember Pets.com or Kosmo.com. It was like getting a root canal with no anaesthesia. None of those things are fun. But they also don’t matter.” (Blodget, 2014).

One of the most ambitious projects but one that proved to be one of Amazon's biggest failures is the Fire Phone, the initial price was \$ 200 but given the failure Amazon lowered the price to 99 cents but consumers continued to ignore it and not buy it. This failure cost Amazon a loss of \$ 170 million.

Another failure for Amazon were the pop-up stores, places where customers interested in certain products, such as Amazon Echo, could see all their features live before making their purchase online, but Bezos decided to stop this type of business and to focus on the Amazon Books and Amazon 4-star stores.

The dash buttons were another failure, they were a way to immediately reorder a finished product, users had a dash button for each product, and by simply pressing that button there was no need to put yourself in front of a screen to make a purchase.

Before Amazon Echo they had launched Amazon Tap, a mobile version of the smart speakers enabled by Alexa voice assistant. It was no longer produced as early as the end of 2018.

One service that might have seemed convenient was Instant Pickup, a different way of making purchases, because it allowed customers to buy a product from the Amazon.com platform and immediately afterwards to pick up the same product in one of the locations affiliated with this service.

Whole Foods in early 2019 (a company affiliated with Amazon and controlled by the latter) said not to go ahead and therefore stop with these Whole Foods 365 stores.

The Amazon Restaurants program was launched in London in 2016 but ended in 2018.

Amazon Restaurants offered fresh food prepared by restaurants. In 2018, the Amazon Fresh service also ceased, a delivery service, but of fresh food.

Then there was the purchase in 2010 of Quidsi for 545 million dollars, which was the parent company of the e-commerce companies of the 2000s. It was closed in 2017 as it wasn't profitable enough.

Endless.com was the first Amazon.com brand to sell shoes and accessories but only lasted until 2012, when it was closed.

MyHabit.com was closed in 2016 and was included in the largest Amazon Fashion.

Until 2015 Amazon had a platform for small and medium-sized businesses that allowed them to create their own stores and sell directly online.

Amazon Destinations, a hotel reservation website, was launched in April 2015, but this only lasted six months.

In 2015 Amazon saw the closure of the Amazon Local site, a daily offerings site similar to Groupon.

Amazon also launched a standalone Android app for the purpose of storing gift cards and loyalty cards from the various stores that used them, but after about six months it was officially closed. (Green, 2019)

4.7 Amazon and strategies against COVID-19

With the arrival of the epidemic (Covid-19) in March, Amazon, unlike other companies, had to insert restrictions on the products sold, trying to put in the foreground the sale of basic necessities (products for the hygiene, sanitary and food items).

However, the number of people who have turned to e-commerce to promote social distancing has increased. From a 2020 Wall Street Journal article, Amazon's strategy changes in this period, doing the opposite of pre-Covid-19, i.e. removing devices designed to guide customers to buy more, such as for example the suggestion "who bought this item also bought", which appears once an item has been added to the cart. It also removed promotions for Mother's and Father's Day and postponed the Prime Day of July (a day dedicated to shopping with exclusive offers that encourages customers to buy) (Mattioli, 2020).

After all these limitations starting from the second phase, Amazon has decided to accept supplies from third-party sellers again and again expanding sales, therefore also accepting items not considered essential, while continuing to keep the essential products in the foreground, therefore with priority in shipments (Mattioli, 2020).

In addition, Amazon has announced a cut in affiliate program fees (Amazon Associates) (Palmer, 2020).

As reported by an article in The Financial Times, Amazon's sales during the lockdown reached \$ 11,000 per second in the United States (Baptista, 2020), enough to bring Amazon to hire 75,000 employees, in addition to the 100,000 employees hired per month previous (Di Giovannandrea, 2020).

Due to the pandemic, Amazon has decided to invest about 4 billion dollars, a strategy aimed at improving employee safety such as employee tests and a strengthening of deliveries so as not to have slowdowns caused by the health emergency.

With the lockdown, Amazon's revenues were 26% higher in the last quarter, rising to \$ 145 billion.

While profits are 29% less than in the same period of 2019, due to the increase in shipping costs. Net profits of 2.5 billion dollars were recorded from January to March compared to the same period in 2019 of 3.56 billion dollars (Mossetti, 2020).

Amazon, despite this period of crisis for many companies, has managed to grow, but we must also consider the risks that it has encountered. Regular consumers who turned to Amazon for any type of purchase found themselves in front of out of stock items and weeks of late delivery, with the risk that these customers could abandon their purchases on the Amazon.com site (Ovide, 2020).

Conclusions

The present dissertation aimed to study how to start a startup, by trying to identify what elements are necessary to start a startup. The main characteristics have been defined, i.e. the way in which startups are financed, the startups strategy and the types of investors, in particular the Business Angels and Venture Capital, describing the area in which they operate.

Also, the dissertation represents a reflection upon the startups in the Italian context and provide an overview in order to offer future research suggestions on this topic. More precisely, the dissertation wanted to deal with the Restart-Italy case created in 2012, to analyze the percentages of startups present today. The entrepreneurial ecosystem in Italy was also addressed, which in 2018 was in twentieth place among the twenty-eight countries of the European Union for the effectiveness of its startup ecosystem.

Finally, in the last chapter, the study offers a case study on Amazon Company, by analyzing the various factors that led to the company's success. A startup born inside a garage that then achieved success after several years.

This chapter also analyzed the current situation, analyzing the strategies that the company implemented during the pandemic, Covid-19.

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