

Why is Amazon a Monopoly?

Talking Points

- **The Book Industry was the first to feel the effects of Amazon.** Today, Amazon controls 75 percent of online sales of physical books, 65 percent of e-book sales, more than 40 percent of new book sales, and about 85 percent of sales by self-published e-book authors. In 2016, economist Paul Krugman reported in the *New York Times* that Amazon had as large a market share in the entire book business as Standard Oil did in 1911, right before it was broken up into 34 companies.
- **Amazon's dominance in the book industry forces publishers to deal with the retailer and its bullying tactics.** In one well-publicized fight over e-book terms, Amazon.com delayed fulfillment of customer orders for many popular books from Hachette's imprints in order to get the terms it wanted from the company. The publisher kept the Internet retailer supplied, but Amazon delayed shipments of Hachette titles and restocked their titles slowly (Source: *New York Times*). Most popular books ship from Amazon within two days, but shipping times for Hachette books were listed as upwards of two to three weeks.

In another instance, Amazon removed the buy buttons from Macmillan's titles during an e-book pricing dispute in 2010.

- **Amazon's tactics harm smaller publishing houses, inhibiting new and diverse voices in the book industry.** According to *Forbes*, Amazon receives an effective discount of 53 percent from Random House on its books. Part of that discount comes in the form of "marketing development funds," which Amazon requires publishers to pay if they want to receive promotion on the site. Big publishers typically pay Amazon five to seven percent of the previous year's gross sales, while smaller houses end up paying proportionately more, with the result that smaller houses can be forced to sell their books to Amazon at a 60 percent-plus discount.

- **Amazon is using its market power to eliminate competition** and take control of one industry after another, leaving us with an economy that is less diverse and innovative, and one that affords fewer opportunities for businesses to start and grow.

According to the Institute for Local Self-Reliance study, *Amazon's Stranglehold: How the Company's Tightening Grip Is Stifling Competition, Eroding Jobs, and Threatening Communities*, Amazon does this through various means:

Underselling the competition. The Institute for Local Self-Reliance notes in its report that “Amazon uses its vast financial resources to sell many products below its own cost as a tactic for both eliminating less well-funded competitors and acquiring customers into its Prime ecosystem, which sharply reduces the chances they will shop around in the future.” In 2014, Bob Kohn, a technology attorney and founder of EMusic.com, asserted that Amazon used predatory pricing to gain an advantage in the book industry, as reported by CNBC.

Displacing an open market with a privately controlled market. By using Amazon Prime to corral an ever-larger share of online shoppers, Amazon has left rival retailers and manufacturers with little choice but to become third-party sellers on its platform; in addition, half of all online searches begin with Amazon. In effect, Amazon is supplanting an open market with a privately controlled one, giving it the power to dictate the terms by which its competitors can operate, and to effectively levy a kind of tax on their revenue.

Amazon leverages the interplay between the direct retail and platform sides of its business to maximize its dominance over suppliers. As Amazon extracts more fees from suppliers, it reduces their ability to invent and develop new products. Meanwhile, Amazon is rapidly expanding its own product lines, using the trove of data it gathers from its platform to understand its suppliers' industries and compete directly against them. Many of these Amazon products appear at the top of its search listings.

Increasing prices once the consumer is hooked. Already there's evidence that Amazon is using its huge trove of data about customers' buying habits to raise prices. It's also started blocking access to certain products, charging higher prices, and delaying shipping times for customers who decline to join its Prime program.

Pro Publica tested the purchasing options at Amazon and found that, in their tests, Amazon's sophisticated shopping algorithm favored Amazon and the sellers it charges for its services, even if the price is much higher. (Source: Pro Publica)

- **Anti-competitive: Amazon dictates terms for its own competitors.** By controlling critical infrastructure, Amazon both competes with other companies and sets the terms by which these same rivals can reach the market. Locally owned retailers and independent manufacturers have been among the hardest hit. (Source: Institute for Local Self-Reliance)

Amazon forces competitors to work with it, thereby exercising control over their competition. Amazon's dominance cannot be gauged if we measure competition primarily through price and output. The economics of platform markets create incentives for a company to pursue growth over profits, a strategy that investors have rewarded. Under these conditions, predatory pricing becomes highly rational, even as existing doctrine treats it as irrational and therefore implausible. Second, because online platforms serve as critical intermediaries, integrating across business lines positions these platforms to control the essential infrastructure on which their rivals depend. This dual role also enables a platform to exploit information it has collected on companies that use its services to undermine them as competitors. (Source: *The Yale Law Journal*, Lina Khan)

- **The real cost of a monopoly is not about price, it's about stifling new business and job creation.** Amazon's tightening grip is damaging our ability to earn a living and curtailing our freedom as producers of value. New business formation has plummeted over the last decade, which economists say is stunting job creation, squeezing the middle class, and worsening income inequality. (Source: Institute for Local Self-Reliance)
- **Anticompetitive behavior from Amazon has resulted in a sharp decline of independent businesses.** A report, *Monopoly Power and the Decline of Small Businesses*, released in August 2016 by the Institute for Local Self-Reliance found that the sharp decline in the number of small, independent businesses in the U.S. is due, at least in part, to anticompetitive behavior by large, dominant corporations. Between 1997 and 2012, local retailers saw their ranks diminish by about 108,000: a drop of 40 percent when measured relative to population. As recently as the 1980s, independent retailers supplied about half of the goods Americans bought in stores; today their share is down to about one quarter. All told, between 1997 and

2012, the share of total business revenue going to firms with fewer than 100 employees fell by nearly one-fifth, from 29 to 24 percent.

- **Today a single company dominates retailing.** Overall, Amazon generates 30 percent of all online and offline retail sales growth in the United States and controls 40 percent of internet cloud services. Eighty-four percent of U.S. consumers have made an Amazon purchase in the past year, and most of those consumers (55 percent) are also Amazon Prime members. (Source: *Fast Company* and Walker Sands Communication, *Future of Retail*)
- **Amazon's stock actually increased after it announced its proposed purchase of Whole Foods.** Traditionally, an acquirer's stock is supposed to fall after an acquisition. The fact that Amazon's stock price rose is, according to reporter Ben Walsh, "a signal that Amazon is assembling/has assembled a powerfully anti-competitive enterprise." He explains that this indicates that investors now believe Amazon is stifling competition in the retail sector and the broader American economy.

Where there's smoke, there's fire: An increasing number of economic experts, authors, and publications are calling for an antitrust investigation into Amazon. In 2015, in an unprecedented joint action, U.S. booksellers, authors, and literary agents called on the U.S. Department of Justice (DOJ) to investigate the business practices of Amazon.com. In a letter delivered to the Department of Justice on July 13, the group Authors United called for an investigation into Amazon's "abuse of its dominance in the world of books." The letter stressed that Amazon's monopolization of ok industry.

Amazon's purchase of Whole Foods had many in the media questioning whether Amazon is a monopoly, including Fox Business News, *Fast Company*, the *Atlantic*, *New Republic*, the *New York Times*, *Fortune*, Salon.com, and the *New Yorker*, to name a few publications.

For more information, call David Grogan, Director, Public Policy & Advocacy at the American Booksellers Association at (800) 637-0037, ext. 7562.