

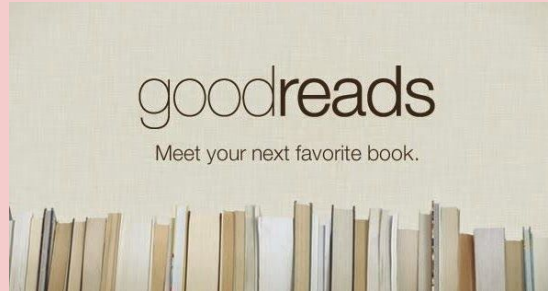
# Amazon = Bad?

The answer may surprise you



The Amazon logo, consisting of the word "amazon" in a bold, lowercase, sans-serif font with a curved orange arrow above the letters "a" and "z", is displayed on a white diamond-shaped background that is tilted diagonally.

# Amazon Subsidiaries

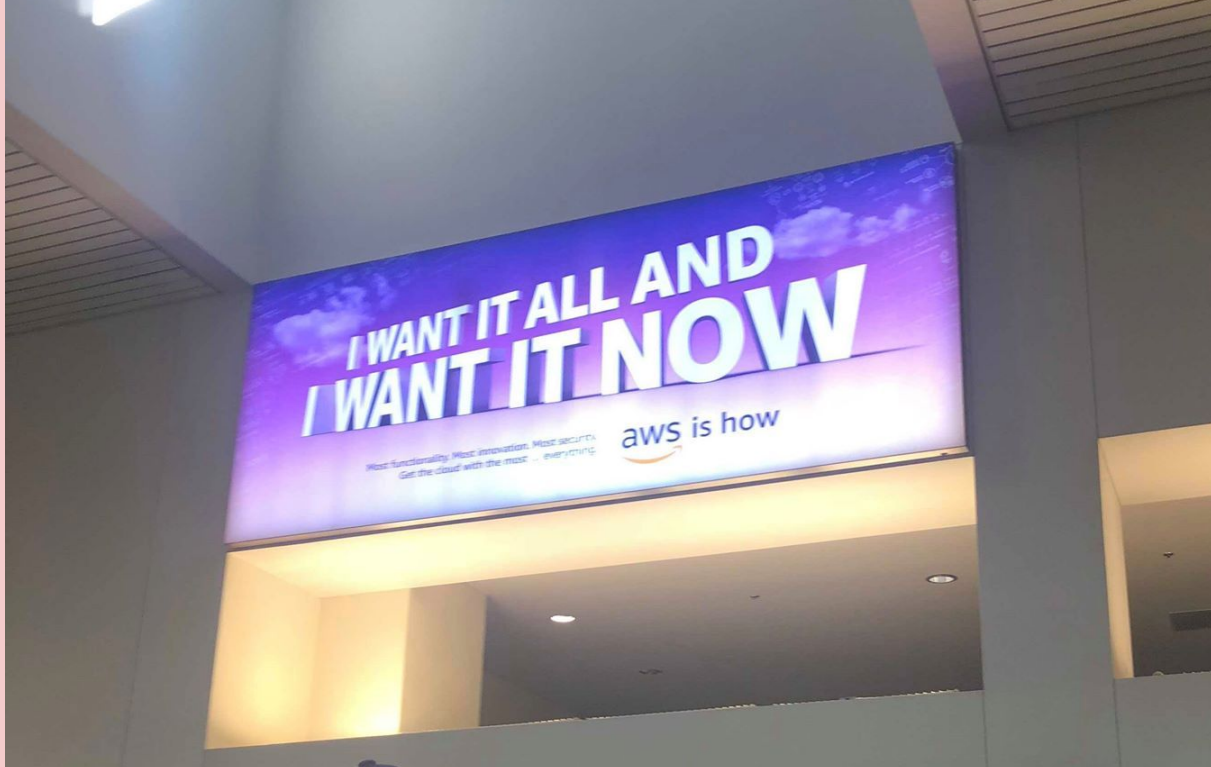


Maybe one day you  
too can join the  
Amazon fam :)

# Amazon Web Services



- A subsidiary of Amazon that provides on-demand cloud computing platforms and APIs to individuals, companies, and governments, on a metered pay-as-you-go basis.
- List of the stuff: computing, storage, networking, database, analytics, application services, deployment, fresh french fries, management, mobile, developer tools, and tools for the Internet of Things
- Most popular: Amazon Elastic Compute Cloud (virtual cluster of computers) and Amazon Simple Storage Service



:(

# But who cares about AWS

- \$10 billion in annual sales as of 2016
- The most successful cloud infrastructure company, with 34% of all cloud, more than the next three competitors (Microsoft, Google, and IBM) combined.
  - Amazon Compute Cloud launched in August 2006, first to market with a modern cloud infrastructure service
- Customers: NASA, Netflix, U.S. Navy, the CIA, Reddit, Foursquare, Pinterest, Obama presidential campaign of 2012
- 2019: more than 80% of Germany's listed DAX companies use AWS

# Still who cares about AWS

Quote from AWS CEO Andy Jassy:

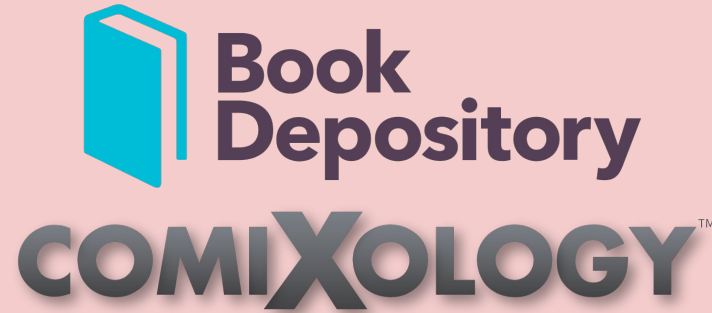
“If you believe companies will build applications from scratch on top of the infrastructure services if the right selection [of services] existed, and we believed they would if the right selection existed, then the operating system becomes the internet, which is really different from what had been the case for the [previous] 30 years.”



AWS Server Farm in McNary, OR  
(Google Maps)

# Amazon Publishing

- The e-books case: ***United States v. Apple Inc.***, 952 F. Supp. 2d 638 (S.D.N.Y. 2013): US antitrust case in which the Court held that Apple Inc. conspired to raise the price of e-books in violation of the Sherman Act.
- Allowed Amazon to continue price cutting on e-books
- Concern with Amazon's dominant position as an e-book retailer and its aggressive tactics. Could drive out other booksellers and ultimately increase retail prices; buyer power could reduce gains to publishers and authors, stunting development of new titles.





# Amazon Physical Stores :)

-Amazon first opened brick-and-mortar stores in 2017



# Brick and Mortar

- Amazon Books: A place for Prime members.
  - Book prices for non-Prime members same as B&N
  - Prime members get the books at website price
  - Rip independent bookstores
- Whole Foods: Prime discounts and home delivery



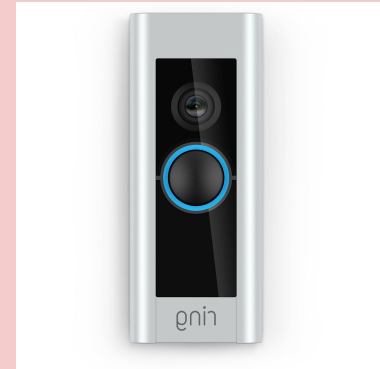
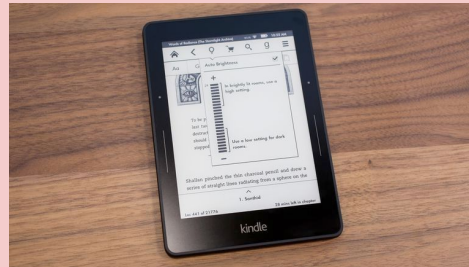
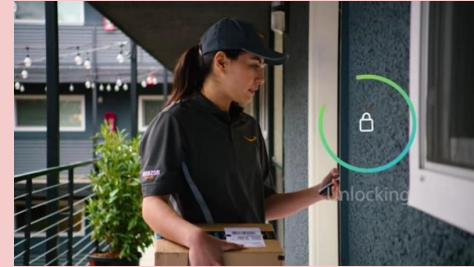
# But who cares about brick and mortar

- 1) Stores are rEaDy FoR dIsRuPtIoN
- 2) The future of retail is blended. “What shoppers love most is choice.”
- 3) Stores will help Amazon to get into the fashion market
- 4) Amazon wants to grow its ecosystem
- 5) Stores help Amazon offset rising shipping costs.



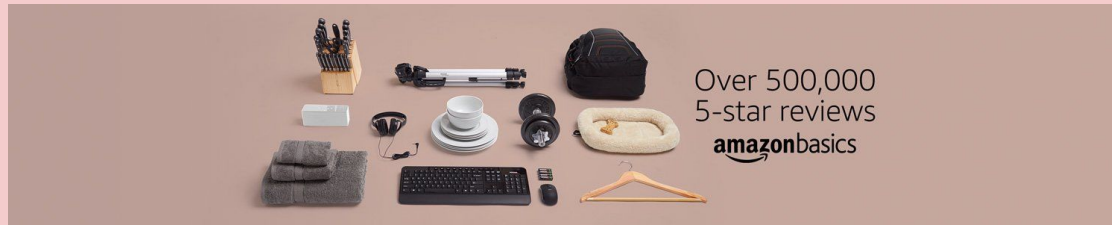
# Ok what does Prime do again?

- 2-day shipping
- Twitch Prime
- Prime Reading (ebooks)
- Prime Music
- Prime Video
- Amazon Go
- Amazon Key



# Amazon Products

- Private label launched in September 2009. Extremely cheap!!
  - Example: AmazonBasic red Solo-style cup \$16.49 for 240 vs. Solo brand \$26 for 200
  - Quickly captured  $\frac{1}{3}$  of online market for batteries (vs. Energizer and Duracell)
- How is it so cheap?
  - Skip packaging, advertising, let house brand speak for itself
  - Products based on analysis of actual customer demand
  - No middleman
- Optimizes word-search algorithms, analyzes competitor's sales data, uses customer-review networks
  - Access to data that no one else has!
  - Also Alexa is in cahoots



# TAKEAWAYS from products and services

Amazon has set itself up for creating a monopoly in the online marketplace and in retail in general, with its recent establishment of brick-and-mortar stores.

Furthermore, its broad Prime membership program and its holdings in a wide range of sectors and services, from cloud computing, to book publishing, to audio and video, to home security, to Alexa (play ~~Despacito~~ Plastic Love by Mariya Takeuchi)... blaa blaa blaa, suggest that the company has the ability to encompass most aspects of society and our lives.

# One-Click Patent



- 1999: Amazon patents “one-click buying,” the process of ordering a product with the click of a button
  - Lowers rates of “cart abandonment,” which are often up to 70% in multi-step buying
- 2000: Amazon sues Barnes & Noble for using one-click buying on its website
  - Settled in 2002
- 2000 - 2017 Amazon licenses one-click ordering to Apple & other companies
  - Value of the patent estimated at >\$2 billion annually
- 2017: the patent finally expires



# One-Click Patent

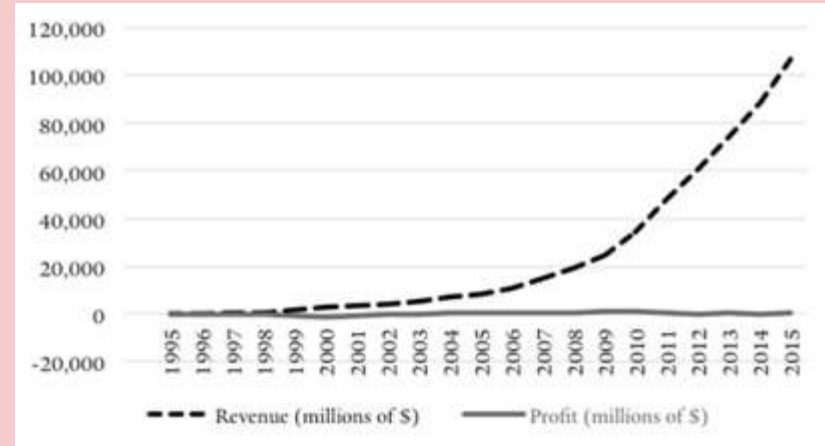
“When we write the history of electronic commerce, the 1-Click patent ... allowed Amazon to create a very strong position in the market. Most importantly, it allowed Amazon to show customers that there was a good reason to give them their data and the permission to charge them on an incremental basis. It opened up other avenues for Amazon in e-commerce. That is the real legacy of the 1-Click patent.”

--- R. Polk Wagner (UPenn Law Prof & Expert on Patent Law)



# Amazon's Antitrust Paradox

- Amazon's rise has been characterized by incredible growth but comparatively slim profits
  - Lost \$\$\$ for seven years straight, and income hasn't risen above 1% of its net sales
  - Deliberate choice to price products below market and focus on expansion
  - As a result, have become dominant player in ecommerce --- 49.1% of all online sales --- in addition to the other sectors we've discussed
- Should this worry us?



# Amazon's Antitrust Paradox

- 1890: Sherman Act
- Before 1960: Economic Structuralism
  - Concentrated markets are inherently dangerous; companies gain unfair bargaining power against consumers, workers, and new market entrants
- 1970s - 1980s: the Chicago School
  - Antitrust should be viewed through lens of price theory: simply put, the market will sort it out.
  - Therefore, consumer prices are the best metric for assessing competition.
  - Robert Bork's "The Antitrust Paradox" asserts that consumer welfare should be the standard for assessing antitrust --- mergers should be prevented only if they would allow companies to raise prices to above-competitive levels
- 1979: US Supreme Court declares Sherman Act intended as a "consumer welfare prescription"

# Amazon's Antitrust Paradox: Predatory Pricing

- Practice of setting prices very low to drive competitors out of the market
- First predatory pricing case: US Gov vs Standard Oil (1911)
  - Cross-subsidizing: charging exorbitant prices in monopoly markets and using the profits to subsidize below-cost prices in other markets
- US Gov took very seriously (Clayton Act + Robinson-Patman Act), til Bork Bork'd it up
  - "As [Bork's work] shows, the success of such schemes is inherently uncertain: the short-run loss is definite, but the long-run gain depends on successfully neutralizing the competition. For this reason, there is a consensus among commentators that predatory pricing schemes are rarely tried, and even more rarely successful. The real danger for the law is less that predation will be missed than that normal competitive behavior will be wrongly classified as predatory and suppressed." (*Matsushita Electric Industrial Co. v. Zenith Radio Corp*)
- Recoupment test (*Brooke Group Ltd. v. Brown & Williamson Tobacco Corp*)

# Amazon's Antitrust Paradox: Vertical Integration

- Acquisition of companies in other stages of production
  - E.g. I own a vegetable wholesaler and a delivery truck business and a grocery store chain
- Same story: pre-1960, US Gov thought vertical integration allowed market actors too much leverage
- Bork'd again!
  - "The law against vertical mergers is merely a law against the creation of efficiency."



# Amazon's Antitrust Paradox

What's the harm?

What does that mean for Amazon?

# Amazon's Antitrust Paradox

- Platform effects
  - Can sellers avoid working with Amazon?
  - Network effects & market share
- Predatory pricing
  - Amazon is losing billions on certain programs (e.g. Prime --- est \$1 - 2 bil / yr) and subsidizing these losses with others (AWS)
  - Venture \$\$\$ and Silicon Valley attitude towards growth > profitability
- Vertical integration
  - Granular data on competitor's products, marketing, and sales offers unparalleled advantage

Do we need to rethink the consumer welfare standard for modern tech monopolies?

# European Commission Investigation into Amazon

## Amazon's standard agreement

- Amazon gets access to product information and sales data from all third parties who sell products on its platform
- Could Amazon use this data to gain unfair advantage in pricing, marketing, and product development?

# European Commission Investigation into Amazon

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# European Commission Investigation into Amazon

## BuyBox

- > 4 / 5 purchases on the site made thru the BuyBox
- Multiple vendors for a product compete to appear in the BuyBox
  - Winner picked using a “proprietary algorithm” that factors in price + reviews + fulfilment (?)
- Amazon does not disclose how frequently it wins this competition :)

Optimum Nutrition Micronized Creatine Monohydrate Powder, Unflavored, Keto Friendly, 120 Servings (Packaging May Vary)  
by Optimum Nutrition  
★★★★★ 10,176 ratings | 347 answered questions  
Amazon's Choice for "creatine"

Price: **\$15.08** (\$0.71 / Ounce) ✓prime FREE One-Day  
Get \$70 off instantly: Pay **\$0.00** \$15.08 upon approval for the Amazon Prime Rewards Visa Card. No annual fee.

**Note:** Available at a lower price from other sellers, potentially without free Prime shipping.

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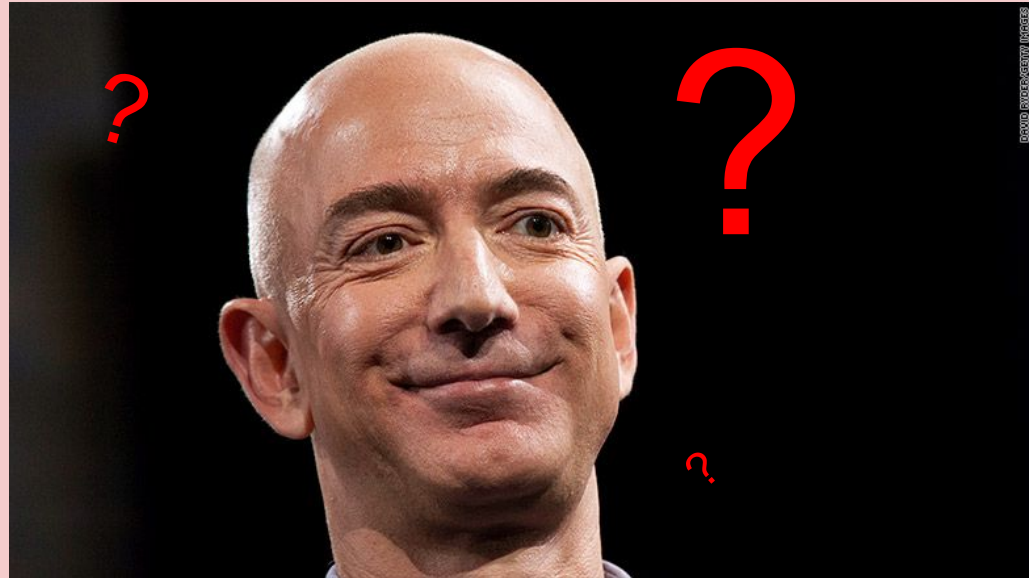
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+ Free Shipping  
Sold by: iHerb, LLC

# US FTC Investigation

- Broad investigation into multiple practices
  - Right now, no specific bad behavior cited
  - Conducting interviews with small businesses, determining whether they have the option to use other marketplaces or whether Amazon is a functional monopoly

# FUTURE

- Do you think Amazon will eventually raise prices? What's their endgame?
- Can you think of other companies that are positioned to act like Amazon?



# Further Reading!

- <https://www.yalelawjournal.org/note/amazons-antitrust-paradox>
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