

Amazon isn't technically dominant, but it pervades our lives

July 19 2017, by Anick Jesdanun



In this Tuesday, July 11, 2017, photo, pedestrians walk past a Whole Foods Market, just down the street from the headquarters of Amazon, in Seattle. Amazon, already a powerhouse in books, shoes, streaming video, electronics and just about everything else, will bind its customers even more closely once it completes its \$13.7 billion bid for the organic grocer Whole Foods. Although antitrust lawyers believe the deal will get approved, many customers and experts alike worry about two big companies combining into a bigger one. (AP Photo/Elaine Thompson)

Amazon is already a huge part of many people's lives. And its \$13.7

billion deal for the organic grocer Whole Foods will likely bind its customers even more tightly.

"It kind of feels like they're taking over so much commerce in our life," said Erica McGivern, a Whole Foods and Amazon customer who lives in Seattle, where Amazon is headquartered. "It's intimidating."

The acquisition could easily hurt both Amazon's existing rivals and future startups that might one day challenge it. Yet experts don't believe U.S. antitrust regulators will oppose the deal. That's largely because it doesn't create anything resembling a traditional monopoly.

Instead, it merely extends Amazon's long quest to make shopping so convenient that consumers won't even think about stepping away from its embrace. The more successful that strategy, the more Amazon can monopolize the attention and shopping dollars of its customers—which, of course, is perfectly legal.

A QUESTION OF PRICE

Amazon is just one of several major tech companies—such as Google and Facebook—facing new scrutiny over their market power, which doesn't map neatly onto traditional notions of monopoly.

When a company dominates a market, it typically pushes up prices to boost profits—something U.S. antitrust law is geared to prevent. Amazon, however, has a track record of keeping prices low and locking customers in to sell more stuff. For instance, the company typically sells gadgets like its tablets for little or no profit—but then pushes people to buy digital movies they can watch on the tablet.



In this Tuesday, July 11, 2017, photo, Whole Foods Market Chef Hayden Smissen, left, hands a grilled chicken dish to Amazon worker Pandong Zhang, on lunch break from his office nearby, in Seattle. Amazon, already a powerhouse in books, shoes, streaming video, electronics and just about everything else, will bind its customers even more closely once it completes its \$13.7 billion bid for the organic grocer Whole Foods. Although antitrust lawyers believe the deal will get approved, many customers and experts alike worry about two big companies combining into a bigger one. (AP Photo/Elaine Thompson)

"Amazon's strategy has always been a volume strategy, not a profit strategy," said Lauren Beitelspacher, a marketing professor at Babson College in Massachusetts.

In a traditional sense, Amazon still faces lots of competition. Walmart remains the leading retailer overall, with more than three times Amazon's retail revenue. Even with Whole Foods, Amazon will have less than 3 percent of the U.S. market share in groceries, according to Kantar

Retail. Walmart is the leader, with a 22 percent share last year.

And while Amazon is the clear leader in e-commerce, 90 percent of worldwide retail spending is still in brick-and-mortar stores, according to eMarketer.

Rather than dominate in market share, Amazon dominates "in reaching into customers' lives," Gartner retail analyst Robert Hetu said.



In this Tuesday, July 11, 2017, photo, people walk past a Whole Foods Market, just down the street from the Amazon headquarters, in Seattle. Amazon, already a powerhouse in books, shoes, streaming video, electronics and just about everything else, will bind its customers even more closely once it completes its \$13.7 billion bid for the organic grocer Whole Foods. Although antitrust lawyers believe the deal will get approved, many customers and experts alike worry about two big companies combining into a bigger one. (AP Photo/Elaine Thompson)

Amazon has gotten some complaints that its most prominent results in

shopping searches aren't always the cheapest. But for many frequent customers—the more affluent ones who tend to be members of Amazon's \$99-a-year Prime loyalty program—Hetu said Amazon just needs to be more convenient.

BANKING ON LOYALTY

Convenience can come in the form of Dash buttons, which put reorders of baby wipes or coffee beans a finger-press away. Voice-shopping capabilities in Alexa-enabled Echo speakers make it possible to shop while doing household chores.

Amazon also offers discounts for shoppers who sign up for regular delivery of frequently purchased items. Free shipping with a Prime membership makes it tempting to check Amazon first, even if rivals also offer free shipping for larger orders. And of course, Amazon offers bonuses and cash back when using its gift cards and credit cards.



This Oct. 8, 2015, file photo shows Clorox disinfecting wipes and Ziploc Dash buttons from Amazon. Amazon's Dash buttons offer convenience, putting reorders of particular products such as baby wipes or coffee beans a finger-press away. Amazon is already a huge part of many people's lives. And its \$13.7 billion deal for the organic grocer Whole Foods will likely bind its customers even more tightly. (AP Photo/Mark Lennihan, File)

Meanwhile, the Prime membership offers not just TV shows and movies but also music from such artists as Coldplay, Adele and Bruno Mars. It's a cinch to watch on an Amazon Fire TV device or listen on the Echo.

Add to that a new feature resembling the social network Pinterest. Customers share their favorite designs, recipes, books and other items. But whereas Pinterest users can buy what they like anywhere, Amazon Spark would direct customers to Amazon's own store.

"They are pervasive in the fun parts of life, shopping and entertainment," Beitelspacher said. "You have all these things that evoke positive feelings. So when they introduce something new, it's much easier for them to overcome the barriers of entry because they have this positive brand equity."

DEMANDS ON SUPPLIERS



In this Tuesday, Nov. 3, 2015, file photo, employees smile as they unlock and open the door to the first customers at the opening day for Amazon Books, the first brick-and-mortar retail store for online retail giant Amazon. Although Amazon already dominates e-commerce, 90 percent of worldwide retail spending is still in brick-and-mortar stores, according to eMarketer. Amazon has the chance to change retail with automation and data-mining technologies borrowed from e-commerce. (AP Photo/Elaine Thompson, File)

The ease of Amazon deliveries may evoke goodwill among consumers, but it has hastened the decline of several brick-and-mortar retailers—in particular, bookstore chains.

Amazon's size also gives it tremendous buying power. Just like Walmart and other big companies, Amazon can use that power to wring low prices from suppliers of products and services that Amazon sells. While Amazon can pass those savings onto customers, analysts say smaller suppliers might have to reduce quality or staff to cut costs. Some might even go out of business.

On Monday, a union representing food-industry workers called on the Federal Trade Commission to scrutinize Amazon's deal for Whole Foods, citing the impact on suppliers, among other things.

But U.S. antitrust officials tend to block deals only when they combine direct competitors—say, if Amazon were to buy Walmart, or the other way around. Amazon doesn't currently have a big groceries business, and Whole Foods doesn't have a huge online or delivery operation, so they likely won't be considered direct rivals. Regulators typically look for consumer harm—and might have trouble finding any.



In this Nov. 20, 2015, photo, packages being shipped in Amazon boxes ride a conveyor belt at the UPS Worldport hub in Louisville, Ky. Amazon is already a huge part of many people's lives. And its \$13.7 billion deal for the organic grocer Whole Foods will likely bind its customers even more tightly. While Amazon is the clear leader in e-commerce, 90 percent of worldwide retail spending is still in brick-and-mortar stores, according to eMarketer. (AP Photo/Patrick Semansky)

Some suppliers are even looking forward to reaching Amazon's large customer base . In a statement, Amazon said it wants Whole Foods to continue working with "small farms and producers" to bring natural and organic food to shoppers. The company declined further comment.

Rutgers law professor Michael Carrier said he expects regulators to eventually say enough is enough. But he said that "still could be a while. Certainly in a Republican administration, these arguments would fall on less receptive ears. Even in a Democratic administration, this is a bit of a reach."

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