Op-ed:
Millions of Small Business Owners Stand to Gain as FTC Sues Amazon

In September 2023, the FTC filed a lawsuit against Amazon alleging that it operates as a monopoly in two markets: online superstores, and online marketplace services. Monopolistic behavior, the opposite of free and fair competition, is harmful because it eventually leads to higher prices and/or lower quantities of goods traded in a market. While we will not get into the technical definitions of the two markets outlined in FTC's 172 page report, we support their course of action. This support comes from our analysis of (potential) losses buyers and sellers are incurring because of Amazon's anti-competitive, non-transparent actions, mostly around pricing.

First, it is important to put in context Amazon's power and business model. It is the biggest eCommerce retailer in the US, accounting for more than 60% online retail sales. Over the past decade, it has consistently maintained this share by implementing what its executives call the *flywheel of success*. This *flywheel* initially focused on bringing more customers to the platform by offering lower prices. To satisfy the needs of customers, Amazon made a conscious decision to onboard more sellers instead of just selling its own products. More sellers led to more variety and competition - as of today, buyers can, at the click of a button, explore and purchase more than 500 million products on the platform. All of this was great, however, now that Amazon has a *critical mass* of buyers, the sellers that helped Amazon fuel its growth find themselves at its mercy.

Over the last 5 years, Amazon has consistently increased the fee it charges sellers. According to market research firm Marketplace Pulse, Amazon's cut of sellers' revenue increased from ~35% in 2016 to more than 50% in 2022. While this move could be justified if sellers' total revenue, and hence, take home revenue increased during the same period, Amazon also puts contractual obligations on sellers to provide the lowest price on its platform. In case a competing firm, say Walmart, introduces a discount and prices a product lower, Amazon executes a series of automated steps that potentially harm a seller's revenues on its platform. The result? Sellers do what Amazon tells them to do. Amazon can claim to provide the lowest price not because a lower price is not economically possible, but because it disallows sellers from providing heavier discounts elsewhere. This is the first way through which Amazon creates losses for buyers and sellers - by removing opportunities to buy at lower prices elsewhere and make additional sales respectively.

Naysayers can argue that an anticompetitive pricing policy like this is a necessary evil of *the flywheel* that produces and more importantly, retains *critical mass* that in turn, brings economies of scale that both buyers and sellers enjoy. However, consider a seller from a rural town in the US dealing in niche products who initially benefited from Amazon's platform in the form of increased customers and sales. As Amazon keeps increasing its cut, what negotiating power does this seller have? The strict policing around lowest price has deterred competitors from expanding in the online superstore (one stop mega mall) market, giving limited bargaining power to sellers.

This inability to negotiate trade contracts over the long-term is the second, and potentially more important way in which Amazon hurts free and fair competition[1].

In its 172 page report, FTC gives examples of online marketplaces that tried to compete with Amazon on price - *Jet.com*, acquired by Walmart for $5 billion and later dissolved, and *Zulily*, which also shut down operations recently. Further, the FTC also mentions tactics deployed by Amazon to track and artificially inflate prices, tactics that are manipulative and anti-competitive. An example is *Project Nessie,* which Amazon used to increase prices on the platform. If competitors such as Target and Walmart didn't follow suit, Amazon would keep the higher prices intact. Project Nessie generated $1 billion in additional revenues for Amazon. In the case of perfect competition, artificially inflating prices wouldn't have been possible.

The combined actions of dictating sellers to reduce prices elsewhere, and inflating them at will on their own platform leading to an increasing share of the eCommerce pie, make Amazon a clear monopoly. These actions prevent healthy competition - in an ideal scenario, in the absence of this *pricing trickery*, a competitor like Walmart would achieve critical mass for its online superstore, sellers would have the option to choose between Amazon and Walmart, enjoy more negotiating power and buyers would potentially enjoy higher discounts. While this is happening in pockets, thanks to retailers like Shein and Temu, the lack of a single alternative *online superstore* would still burden sellers who don't specialize in cost-effective apparel or consumer electronics.

Amazon's anti-competitive pricing policies might not meaningfully impact retail buyers like you and me who have many options, but can be life-altering for millions of American sellers, who put their blood, sweat and tears into building eCommerce businesses, only to find themselves being manipulated later by the Earth's most customer-centric company.

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[1] *While inability to negotiate trade contracts is not mentioned as a direct consequence of monopolistic behavior in the traditional price theory-based model which deals with mostly prices and quantities, we argue this is equally or a more dangerous outcome when companies chase "growth" instead of profit maximization, with a goal of getting people hooked onto their platforms*

Technical Appendix

Note[1]: A single price-quantity chart, or for that matter, the profit maximizing assumption is insufficient to explain the monopolistic power of a firm like Amazon that relies on **growth** to gain monopolistic power**.** Its short-term goal is to get more people on the platform, even if that sometimes means **lowering the price and selling higher quantities at a loss**; i.e. in the short-term, Amazon may not act as a *traditional profit-maximizing monopoly* but all of this is done to get people hooked onto their platform and eliminate alternatives. In this case, *contractual obligations* to one firm may seem harmless, but can lead to inefficient trade in the longer-run.

1. **Amazon wields market power to create additional barriers for competitors:** Amazon has market power, the ability to influence the market price of a product. It uses coercive tactics to display the lowest prices on its own platform by barring sellers to do the same elsewhere. This way, it creates barriers for competitors to enter the *online superstore market*. Other barriers competitors face include *network effects* - Amazon has a tremendous repository of customer and seller data including but not limited to reviews, which customers look at before buying products.

2. **Amazon can push higher quantities, lower prices at will through its own brand:** Although sellers constitute 60% of Amazon's gross sales, Amazon has the ability to sell more of a product by introducing substitutes - sometimes under its own brand called *Amazon Basics/ Solimo etc.*- effectively lowering prices of the base product. This is the mark of a true monopolist.

3. **Amazon can also jack up prices through algorithms:** Project Nessie is a clear illustration of monopolistic profit maximization behaviour. Even though the firm probably didn't reduce quantities associated with products, they tracked prices on other websites, compared and increased them at will, leading to lower surplus for consumers. If we assume consumers would have bought more quantities in the counter-factual world where Amazon didn't artificially inflate prices, then the DWL would be even higher.

4. **Amazon seems to play multiple complex games with sellers:** It is tough to draw a simple 2*2 matrix that captures Amazon's strategies towards sellers. It provides them *Fulfilment Services* (warehousing, delivery) that probably does lead to more volume and higher customer satisfaction, which is why most sellers opt for it. But, it also restricts steps these sellers can take to improve business on other platforms, which is a (Win, Loss) outcome, where Amazon is the only one that wins.

References Appendix:

1. FTC's detailed 172 page complaint against Amazon that outlines *online superstore* and *online marketplace services* as relevant markets: Amazon (eCommerce): Revised Redacted Complaint
2. FTC analysis of Amazon's share (>60%) in the online superstore market: Pages 58-59 Amazon (eCommerce): Revised Redacted Complaint
3. Capital One report on number of products for sale on Amazon: How Many Products Are on Amazon? (2023 Analysis)
4. Marketplace Pulse analysis detailing Amazon's cut from sellers' revenues: Amazon Takes a 50% Cut of Sellers' Revenue - Marketplace Pulse
5. Amazon's flywheel explained by a company executive: Virtuous Cycle
6. CNBC reporter covers how sellers are hurt by Amazon's policies: Amazon sellers sound off on the FTC's 'long-overdue' antitrust case
7. Project Nessie, highlighted in FTC's report but also covered by media outlets: Amazon's secret pricing scheme made it an extra $1 billion, FTC says - The Verge
8. Amazon lowers transaction fee on sellers because of competition from Shein: Shein Forces Amazon To Lower Seller Fees - Marketplace Pulse
9. Competitive threat posed by Shein and Temu: Shein, Temu Marketplaces With No US Sellers