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The Amazon Monopoly: Is Amazon's Private Label Business the Tipping Point?

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Is Amazon's Private Label Business the Tipping Point?

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Abstract

The purpose of this paper is to consider if Amazon's increase in private label brands is the tipping point for transforming the e-commerce giant into a monopoly. To lay the foundation, we initially explore the culture, leadership, and business practices which are unique to Amazon that enabled the company to become one of the U.S.'s largest and fastest growing e-commerce websites. Introduced in 2009, Amazon's private label business has further propelled Amazon's growth while creating a competitive advantage for the company by offering high quality products to their customers at low cost options. In considering whether private label brands affect Amazon's status as a monopoly, we first examine exactly what a monopoly is and if Amazon can be classified as one in its current state. We then take a deep dive into Amazon's private label strategy, analyzing past performance to make educated assumptions about the future. Our research provided evidence indicating that Amazon's actions are threatening the cooperative nature of its Marketplace by creating substantial barriers to entry and increasing Amazon's market share. With this knowledge we make predictions about Amazon's future and whether it will ever be seen as a monopoly under the economic, legal, and/or social definitions. While Amazon's case is unprecedented, this paper sources leading economists, journalists, and other academic research to support our theory.

Table of Contents

Abstract	1
Introduction & Objectives	3
Description of Enterprise	4
Amazon's Emergence from the Dot-Com Era	4
Amazon's Leader & Culture	5
Amazon's Financials	6
Case Context	7
A Focus on Amazon Marketplace	7
Private Labels	8
Key Observations	8
Unfair Competition	9
Disruptive Impact on Branded Products	9
Methodology	9
Literature Review - Monopolies	10
The Definition of Monopoly	10
A New Concept of Monopoly	10
Regulation against Monopoly	11
Actions Taken	11
Emergence of Amazon's Private Labels	11
Growing Barriers, Impact on Competitors	14
Predictions	15
Lessons Learned	17
The Size, Culture, and Growth Aspects of Amazon are Unique	17
The Definition of Monopoly is Different Between Economics, Law, and Social	18
The Private Label Concept is Both Old and New	19
The Backlash Against Amazon is Coming	19
Conclusion & Recommendations	19
Summary of Findings	19
What's Next? Our Recommendations	21
References	21
Appendix	27

Introduction & Objectives

Within the US retail market, a generalization can be made that every consumer and producer has had their shopping experience influenced by Amazon in one way or another over the past twenty years, whether it be in the way that they shop / sell goods, or through the disruption Amazon has brought to the online and brick-and-mortar retail market. Retail, and more specifically e-commerce, has experienced remarkable growth since the turn of the century, fueled in part by Amazon's disruptive and innovative go-to market strategies. Amazon's impact has been multifaceted to both consumers and producers by creating new standards and changing expectations on both sides of the market. Amazon's disruption to the industry has been sustained by their diverse product portfolio, ranging from cloud computing services to distribution services to consumer products and subscriptions (most notably, Amazon Prime). At the center of the web is Amazon's Marketplace, connecting retailers with consumers around the world. In addition to providing a platform for merchandisers of any size, Amazon has become a player of its own game through the creation of its own private label brands.

Within this case study we will analyze the steps Amazon has taken to becoming the United States' largest e-commerce retailer (e-retailer) and predict how it will continue to grow through the launch of its private label brands, competing directly against the firms it advertises its marketplace services to. Through the use of private label Amazon is able to compete aggressively against other firms by offering lower consumer prices combined with Amazon's remarkable reputation and without sacrificing product quality. In addition to consumer facing brands, Amazon is quietly building a supply chain of which they have total control over. While the scope of this case study is limited to the impact their private label brands are having, it is critical to note that Amazon is paving their path to success through omnipresence control over the entire supply and value chains.

We feel it is safe to say that Amazon is a remarkable organization. Since its inception the company has redefined consumer expectations in regards to buying goods and services, starting from humble beginnings as an online book store. With its recent acquisition of Whole Foods, the expectation is set that Amazon is looking to take over retail, both within the physical and online spaces. With its disruptiveness towards the retail market, we wonder how far Amazon will go; will it become a monopoly or is it perhaps already one? Within the following sections of this case study we will attempt to illustrate the relationship between Amazon's private labels and the company's classification as a monopoly to find out if there are any connections, ultimately asking the question 'what is Amazon's end game'?

The sections which follow will explore in-depth Amazon's private label business and the key observations we see arising from the emergence of Amazon's new brands. We initially theorize that through their multiple private label brands, Amazon is attempting to increase their e-commerce market share by creating competition for third party firms within Marketplace. We believe private labels will bring higher margins to Amazon, further differentiating the e-commerce giant from its retail competitors. One outcome of our theory, and the topic of this case study, is the question of whether or not Amazon's private label brands are the tipping point to Amazon being recognized as a monopolistic corporation.

Description of Enterprise

Amazon's Emergence from the Dot-Com Era

All economists, amateur and professional alike, are aware of the dot-com era and the economic recession which followed, impacting millions of individuals and thousands of corporations. The 'irrational' environment which spawned the dot-com bubble is known as the 'Information Age', a time where technology came into focus, enabling unheard amounts of productivity. Generally speaking, most economists do not approve of looking at these 40-60 year 'super cycles' to draw conclusions but there is little doubt that the technological infrastructure built between the 1970's-2000 created fertile soil for internet-based corporations. Modern day economists, such as Carlota Perez, suggest that new technology has "20-30 years of tech 'installation' followed by 20-30 years of tech 'deployment'" (Gross, 2015). If this is true, internet corporations founded at the turn of the century (like Amazon) were set to take full advantage of the technical infrastructure previously 'installed'; fiber optic cables were the new railroad tracks, paving the road to success for newly found internet companies.

Founded by Jeff Bezos in July 1994, Amazon (or Cadabra as it was known in the early days) set out to change the world or at the very least, change consumers' shopping expectations. Amazon.com was launched a year later with books as their first targeted product category. Founded in the garage of a rental home in Bellevue, Washington, this humble beginning helped form the cliché of internet start-ups everywhere. However, unlike many of the thousands of internet start-ups who did not survive the economic downturn following the dot-com bubble burst, Amazon thrived. Leading up to the 2000-2002 dot-com crash was a multi-year period of excessive speculation by the entire investment community from venture capital and private equity firms to institutional and individual investors. Start-ups were told to 'get big fast', harness the 'network effect', and become a 'first mover' by this community (&

business advisors alike) which led to excessive, and many times, over-the-top spending such as Super Bowl ads and paying consumers to tattoo website addresses onto themselves.

Although Amazon was clearly part of this so-called 'internet gold rush', they managed to avoid much of the hype, opting instead for low budget but impactful advertising. An example of this is Amazon's first TV ad which launched in 1999 and featured an all men's chorus singing about all of the product categories Amazon had expanded to beyond books. However frugal they were, Amazon could not fully avoid the aftermath of the dot-com bubble burst as several complementary markets were also affected. As many of the top telecommunication (telecom) corporations were lured by the unprecedented growth of the dot-com firms, executives found themselves over invested in infrastructure (such as fiber optics and 3G licenses) and well ahead of their cash flow. Through Jeff Bezos' leadership Amazon was able to successfully avoid the bankruptcies of these and other 'pick-and-shovel' vendors of the boom/bust to grow into one of the world's most successful companies.

Amazon's Leader & Culture

Jeff Bezos is often lauded as one of the most brilliant business leaders of all time. Recent studies indicate that his highly regarded leadership style of "task oriented, transactional and transformational" has directly contributed to Amazon's success in terms of growth and revenue (Sata, 2015). Amazon's external success comes at a cost though; recent research shows that Amazon isn't exactly the poster-child of internet companies as it deals with internal issues concerning labor unions, working conditions, poor pay, and hostile office environments (Chan, 2015).

An example of Bezos' predatory, win-at-any cost leadership and culture comes from the company's formative years. When negotiating with book publishers, Bezos's five observed strategies were summarized as: 1) Be like the Godfather: make them an offer they can't refuse. 2) Don't give up information unless absolutely necessary. 3) Keep teams small enough that members can be fed with two pizzas. 4) Stop talking so much. 5) Get adversarial (Baer, 2014). While these strategies have arguably led to innovative services for consumers that have forever changed expectations and shopping behavior (i.e. Prime Day), they form the foundation of a business philosophy implying that to win with the consumer, values such as secrecy and obscurity are encouraged both internally and within Amazon's partner community. When Bezos announced that "your margin is my opportunity", most critics understood him as addressing his fellow retailers (Stillman, 2014). Today, we see evidence of this extending well past retailers into the entire supply chain and value chain. Even manufacturers' margins are a target as Amazon extends their reach into private label brands.

Another example of a manifestation of the founder's ambitions is Amazon's 'walled garden' philosophy which establishes rules for all Amazon internal developers that the Amazon Marketplace is a closed ecosystem (Frieden, 2017). This means that the system's specifications are kept secret and almost no third party software development is allowed. This strategy is typically adopted by firms with a long term outlook since developing all services in-house tends to take much longer to deliver as opposed to adopting plug-and-play software requiring no additional development. In addition to providing suggestions regarding Amazon's outlook towards their future, Amazon's command of data behind their 'walled garden' is a primary concern to researchers and the federal government as they explore whether Bezos' has created a monopoly, not necessarily on a particular product category but on the e-commerce industry as a whole.

While Amazon's nature can be viewed as predatory towards other retailers, they have and always will put the customer first as demonstrated by their mission statement from the beginning; a ruthless pursuit to do right by the consumer. Amazon's customer-driven culture is the foundation for why Amazon is regarded as one of the industry's most disruptive firms. Their obsession with the customer drives all decisions in the company and in fact has been expanded to form Amazon's Leadership Principles (see Appendix II). While these principles might seem like they'd make a great inspirational poster, Amazonians are trained to embody them, transforming the firm's' culture into a stark advantage.

Amazon's Financials

On September 30, 2017, Amazon announced that their Q3 sales rose 34% to \$43.7B USD (Fildes, 2017). Experts estimate, given the year to date performance so far, that Amazon will finish the year at \$196B+ with ownership of ~44% of all U.S. e-commerce sales (Molla, 2017). The figures reported are gross merchandise volume (GMV), which represents Amazon's retail sales to consumers shipped from either Amazon's warehouse or from third party sellers. These two sides of Amazon's business, estimated to be roughly the same size, are referred to as either 1P (first party) or 3P (third party).

Amazon is the largest e-retailer in the U.S. followed by eBay, Apple and Microsoft. When compared to all offline and online retail, Amazon holds a mere 5% retail market share (excluding food), but its growth is rapidly accelerating (Thomas, 2017a). Last year, 58.6% of Amazon's total sales were from the U.S. with the balance (32.3%) coming primarily from Germany and the UK (eMarketer, 2017). Fast and early growth can be seen in Mexico, India and other emerging markets.

The overall Amazon revenue portfolio includes Marketplace (Retail), Services (Prime, AWS) and Media (Advertising). For the purpose of this case study we will focus on Marketplace, although it is

worth mentioning that the Prime paid membership/loyalty program is considered the primary driver of Marketplace sales. At the end of Q1 2016, Amazon reportedly hit 80 million paid members in the Prime program (Pandolph, 2017). While Amazon does not release total revenue for this program, it can be inferred that Prime rakes in nearly \$8 billion in sales given the yearly subscription fee of \$99.

Case Context

A Focus on Amazon Marketplace

Of all the Amazon businesses, the company is best known for its retail or marketplace platform, appropriately named Marketplace, which connects consumers and producers around the world. The e-commerce platform is renowned for its ability to facilitate fast and easy sales by eliminating unnecessary friction throughout the purchasing journey, causing consumers and retailers alike to view Marketplace as the gold standard for online retail. According to research performed by Millennial Marketing, “Amazon outperformed all other benchmark brands not only across mindsets, but also across generations because of its consistent ability to reduce friction in the consumer journey and stay at the forefront of market innovation” (Huff 2016).

According to the website traffic tool SimilarWeb, Amazon.com’s total visits in October 2017 were nearly 2.6 billion with consumers spending a bit over 6 minutes on the site and visiting 9.14 pages before they left the site (“Amazon.com Traffic Statistics”). As of March 2017 Amazon.com attracted 183 million unique visitors per month, almost double that of its closest competitor eBay who saw 96 million unique visitors (“Monthly Unique Visitors”, 2017). The trend is clear that consumers want to buy online as opposed to in-store and they want to buy from Amazon.com. In fact, numbers published by the U.S. Department of Commerce estimate yearly e-commerce retail sales for 2016 was 8.1% of total retail sales (almost triple the amount since 2006), an increase of 15.15 over the previous year (DeNale & Weidenhamer, 2016; Scheleur et al., 2006). Out of US e-commerce retail sales, Amazon.com is credited with ~43% of the sales, while also responsible with more than half of all 2016 growth in the US online retail market (Zaroban, 2017a).

Perhaps more impressive than the visitors and market share is that 90% of the traffic to Marketplace is organic, meaning visitors found Amazon.com on their own will rather than through paid advertisement (“Amazon.com Traffic Statistics”). This number is almost unheard of in the online world and is a testament to the strength of Amazon and its influence on consumer confidence. The high level of consumer trust in Amazon, secured by programs such as Prime, sets Amazon apart from almost every other retailer, including the best known legacy brands.

In addition to providing a platform connecting retailers and consumers, Amazon also works closely with its third party sellers to ensure integrity with their consumers is retained throughout Marketplace. As of early 2017, Amazon CEO Jeff Bezos claimed that close to 50% of units purchased on Amazon.com were sourced from third party vendors (“Amazon: 2016”, 2016), alluding to the large volume of merchandisers who currently leverage Amazon’s platform to sell their goods. Selling on Amazon is at a cost to the merchant, who can subscribe to either their Professional (monthly fee) or Individual (per sale closing fee) selling plans. Merchants also have the ability to distribute their own products or chose FBA (Fulfilled by Amazon), which provides merchants with the ability to leverage Amazon’s warehouse, packing, and shipping services.

In addition to the benefits provided to consumers and sellers, Amazon themselves benefit from Marketplace in regards to the trove of transactional and consumer data it collects. The following sections within this case study will further expand upon how Amazon leverages this data, however it should be noted that the majority of the data is proprietary to Amazon, meaning they are the only firm who can analyze and make decisions from it. In short, Amazon’s Marketplace provides an incredible value for consumers, a wealth of opportunity for sellers, and a laboratory for Amazon to achieve long-term e-commerce dominance.

Private Labels

Private label refers to brands owned by a retailer. A private label product is produced by a third party manufacturer but sold under the retailer’s brand name, meaning the retailer has total control over the marketing and packaging of the product. Private labels have the advantage of requiring little investment capital, flexibility in production, and increased gross profit since the cost to produce the good is lower. Well known retailers (including Amazon) who are able to provide parallel quality and features in their private label products may save up to 40% in manufacturing and distribution costs compared to brand name merchandisers (Hariharan, 2016). Private label brands have become increasingly popular with internet retailers, with observations towards their favorability dating back to height of the dot-com era: “while supermarkets and department stores in the brick-and-mortar world can take years before they venture into private label merchandise, e-Tailers -in a development that echoes the rapid emergence of the medium itself- are developing private label programs as they approach the starting gate” (Underwood, 2000). At the time of publication of this case study, Amazon currently has ~20 private labels brands across nine distinct retail product categories.

Key Observations

The content of the proceeding sections will explore our key observations in regards to Amazon's position as a monopoly, specifically focusing on Amazon's introduction of private labels and the impact they've had on the market.

Unfair Competition

By creating the new standard for online shopping experiences, Amazon has already negatively impacted plenty of competitors including many small 'mom & pop' shops. For those retailers who have survived, many are choosing to join forces with Amazon via Marketplace in order to stay in business as opposed to attempting to compete directly against Amazon. This raises the question of whether Marketplace is really a fair and friendly mechanism for vendors to co-exist peacefully, or is it a bait and trap set by Amazon to expand its territory? Previously conducted research concludes that Marketplace is a world of cooperation, or a space for business competitors to collaborate for mutually beneficial results. While there is little evidence that would argue against this assumption, we wonder if Amazon has alternative motives in promoting Marketplace to third party sellers. Some experts suggest that Amazon uses Marketplace as a laboratory to understand product performance by leveraging sales and consumer-behavior data from third party products before introducing their own lower priced private labels. We see this unfair competition as one of the barriers which could potentially drive smaller merchants out of Marketplace as Amazon looks to expand into profitable new product categories.

Disruptive Impact on Branded Products

Private label brands, especially from online retailers, are actively disrupting brand-name products as consumers become less concerned with the brand and more with price and quality. For example, Scott Galloway Clinical Professor of Marketing at New York University, argues "brands are at a bit of a disadvantage online because they don't have as many opportunities to portray all these amazing things they've invested in at the point of purchase. They're not as obvious or as valuable online and the typical brand building investments have less purchase or less justification, less value when they go online," in his speech at L2's Amazon Clinic (Galloway, 2017). Amazon clearly understands the weaknesses surrounding online branded products. Plus, the weakness is more obvious when products have online reviews, as these can help drive consumer purchase decisions to be based on quality rather than brand name. Using technology and reviews from consumers, Amazon has the potential to

dismantle competitor's advertising, packaging, in-store shelf placement, and labor costs and still provide the same quality product as branded product.

Methodology

The data provided and analyzed within this case study is a combination of published case studies and journals, books, recent news articles, documents released by Amazon, and personal experiences with Amazon as consumers. While quantitative data to support the findings of this case study was unable to be collected first hand due to time constraints, multiple empirical analyses were leveraged to assist and draw conclusions from. Merging quantitative data with expert opinions and personal experiences, we are able to draw educated conclusions regarding Amazon's position as a retailer and provider of one of the world's largest e-commerce platforms. Applying these conclusions against an updated interpretation of how monopolies are defined provided valuable insights and allowed for predictions to be made regarding Amazon's future state.

Literature Review - Monopolies

The Definition of Monopoly

The traditional concept of a monopoly is characterized by a lack of competition, which results in higher prices and fewer products within an industry. As defined by The Economic Times, "in a monopoly market, the seller faces no competition, as he is the sole seller of goods with no close substitute" ("Definition of Monopoly"). In business terms, "monopoly can also be used to mean the entity that has total or near-total control of a market," as stated by Investopedia ("Monopoly"). Typically, it can be expected that monopolies will raise prices since there are no other competitors in the market and "the ability of a monopolist to raise its price above the competitive level by reducing output is known as market power" (Krugman, 2016). In the case of Amazon, the company cannot be classified as a traditional single-seller monopoly as defined above, but instead has gained power across multiple markets as the 'everything store', achieving domination through diversification. Amazon's market power is undeniable, demonstrated by their influence over both the online and offline retail markets, however instead of raising prices they are lowering them.

A New Concept of Monopoly

We are under the agreement that Amazon cannot currently be classified as a monopoly given the traditional definition based upon its current market share (Sizemore, 2017). As shared within the

conventional definition of monopoly, goods or services produced by a monopolistic corporation are typically associated with higher prices and less competition. Amazon, however, is contributing to the deflationary forces that have haunted the economy for the better part of the last decade. However, some like editor Robinson Meyer argue that Amazon might possibly become a 'vertical monopoly' buying up and down the supply chain and essentially barring other companies from competing with it (Meyer, 2017). Writer Alex Shephard also stated that although prices may stay low, the effect of Amazon's retail push will be profound for both consumers and producers, with Amazon controlling all kinds of supply chains (Shephard, 2017). Both authors believe Amazon could take over the market through its lower price benefit to consumers and, as consumers, we wouldn't even notice. Others have pointed out the possibility that Amazon is currently rewriting the definition of monopoly. The word 'monopsony' has been used to describe the situation Amazon has created: "monopsonists use their market power to drive down the prices suppliers can charge" (Rosenberg, 2017). And of course, there are also some like policymaker Matt Stoller who argue that Amazon is one of "the most obvious and most powerful monopolistic institutions that [is] in our culture right now" (Stoller, 2017).

Regulation against Monopoly

The attitude that monopolies are detrimental and dangerous to both the economy and consumer interests has remained constant over the last century. The U.S. Department of Justice has a clear definition of monopolization, "monopolization requires (1) monopoly power and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident" ("Competition And Monopoly"). Attempted monopolization, which is regulated by the U.S. government, requires that corporations have "(1) anticompetitive conduct, (2) a specific intent to monopolize, and (3) a dangerous probability of achieving monopoly power" ("Competition And Monopoly"). To regulate monopolies, the government created the Sherman Act in 1890, the first antitrust law, which "proscribe unlawful mergers and business practices in general terms, leaving courts to decide which ones are illegal based on the facts of each case" ("The Antitrust Laws"). Our interpretation leads us to believe that the government's antitrust laws do not prohibit every restraint of trade but only those which considered to be unreasonable. Given our agreement that Amazon's current state cannot legally be defined as a monopoly, there is no legal way for the U.S. government to regulate their business practices under The Sherman Act.

Actions Taken

Emergence of Amazon's Private Labels

All firms classified as merchandisers theoretically leverage private labels and Amazon is no exception. Driven by a focus on the long-run and a need to create value and lower margins, Amazon has quietly and not so quietly introduced about 20 private label brands into their Marketplace since 2009. As of 2017, Amazon sells its private label brands exclusively on Amazon.com with products ranging from bedding to snack food to electronics. As of October 2017, Amazon has sold approximately \$300 million in sales related to its private label goods this year, a 12% increase from the year prior (Zaroban, 2017b). Two new private label brands within the furniture sector were introduced early November 2017, further demonstrating how quickly Amazon is growing its product portfolio.

To predict the future actions of Amazon and private labels, one must first understand how Amazon decides what markets to enter and what products to sell. As alluded to previously, Amazon has a pretty selfish motive driving their Marketplace; treating the platform as a laboratory to make informed decisions about whether or not to enter a specific market with their own product (Zhu & Liu, 2016). Once Amazon has identified a profitable product, they contract with the manufacturer directly to sell the same item on their site at a lower cost. It appears that Amazon has reverse engineered the value of a brand name on a product, which is often referred to as the 'brand tax', in order to remove even more margin from the retail price and pass the savings onto the consumer. In many circumstances, once this occurs, the third party seller tries to compete on price but eventually overmatched.

Randy Miller, a former director at Amazon, provided further evidence of this with his statement of "if you don't know anything about the business, launch it through the Marketplace, bring retailers in, watch what they do and what they sell, understand it, and then get into it" (Stone 2013, p. 182). Research has provided concrete evidence backing Mr. Miller's statement, indicating that within a specific product category, "entry by Amazon is more likely for products with higher prices, lower shipping costs, and greater demand", with the likeness for entry increased by the average consumer rating of the product (Zhu & Liu, 2016). Armed with their proprietary analyses of marketplace sales data, Amazon truly brings meaning to Jeff Bezos' statement of 'your margin is my opportunity'.

Markets have seen firsthand evidence of Mr. Miller's statement as Amazon quietly launches new product lines, some bearing the Amazon name while others appear to purposely make no mention of their parent owner (for example, Lark & Ro). The most recognized private label is AmazonBasics, accounting for nearly 85% of all of Amazon's private label sales during the first 10 months of 2017

(Zaroban, 2017b). As Amazon's most mature private label brand, AmazonBasics currently possesses a product catalog of over 1,500 products. In fact, a report published by venture capital firm Kleiner Perkins, Caufield and Byers found that within the US, AmazonBasics currently holds over 30% market share in online battery purchases, far surpassing Duracell (~20%), Panasonic (~13%) and Energizer (~12%) (Meeker, 2017). It also is in third place of market share of online purchases for diapers, surpassed only by Huggies and Pampers (Meekers, 2017). Amazon has shown no indication of a completed product portfolio for AmazonBasics, it can be expected that the firm will continue to search for areas of opportunity (high consumer demand, low manufacture costs) to provide consumers with a high quality, lower cost option.

Interestingly enough, not all of Amazon's private label brands are chasing lower prices. Early November 2017, Amazon announced the launch of two new furniture brands, Stone & Beam and Rivet. Entering into the furniture business, a brand new product space, demonstrates how much the firm trusts their brand and product data to make product decisions. While at the time of publication of this case study, the new product lines were too immature to have any sales data available, an educated assumption can be made that the lines will succeed. This is based upon Amazon's credible brand name, success of previous private label brands based upon similar market research, and Amazon's positive reputation of quick and easy returns, providing comfort to those who are investing in a large purchase without seeing the product.

In addition to investing in their own private label brands, Amazon has created an unique habit of acquiring firms who already have a well-established private label brand. Case in point is Amazon's buyout of Whole Foods, who is well known for its private label brand of 365 Everyday Value. Immediately following the purchase, Amazon enabled sales of the brand's approximately 2,000 products in their marketplace. Estimates indicate in the first month, Amazon customers purchased over \$1.6 million worth of the 365 Everyday Value brand, far surpassing Amazon's forecast as indicated by the number of products recorded as out of stock (Zaroban, 2017b). Amazon's acquisition of Whole Foods and the initial success they've experienced with 365 Everyday Value in their marketplace opens a new realm of acquiring third party private label brands to drive success. In this case, Amazon did not need to use their own 'laboratory' to watch market trends and understand product margins, instead they had Whole Foods complete the investigative stages for them.

Amazon's large investment into private label brands has provided concrete evidence the firm is actively searching for new product spaces to enter. "The purchase of Whole Foods is a sign that CEO Jeff Bezos's vision of the Everything Store is frighteningly literal: Amazon's goal is a takeover of retail itself, both physical and digital" (Shephard, 2017). Research has indicated that the motivation behind

Amazon's advancement is competing with their most successful competitors to commandeer value from their innovations (Zhu & Liu, 2016). So far, evidence has shown that Amazon is succeeding in regards to overtaking online market share. With the increase in market share, Amazon is not only creating demand for their products through lower consumer costs, they are also creating barriers to entry for existing and new merchandisers of similar products and turning the threat of an monopoly into reality.

Growing Barriers, Impact on Competitors

With Amazon continuing to grow both the product catalog of their private label brands and also the categories in which they have private label products, growing barriers within the marketplace are beginning to emerge and are negatively impacting both the mature and new third party sellers on Marketplace. A 2017 study indicated that about 45% of third party sellers are concerned with Amazon competing directly against them, with 59% planning to diversify across multiple marketplaces ("State of Amazon"). This decline in confidence of Amazon indicates that merchandisers are already experiencing the negative impacts associated with Amazon's private label brands. We assume confidence will continue to decline at an increasing rate as Amazon continues to grow its private label brand offerings.

Amazon's introduction of private label brands is just one piece to the way Amazon's driving growth. Behind the scenes, Amazon has the advantage of manipulating their marketplace platform to favor their own brands, indirectly driving sales of their products. Manipulation mainly comes in three forms, product search, product cost, and scalability, all of which are creating barriers to entry for new and existing merchandisers. As these three barriers strengthen, smaller retailers will be the first to be forced out of Marketplace, driven primarily by a lack of product sales. Overtime, the question arises if Amazon will eventually force large-scale retailers out as well, ultimately controlling Marketplace with a wide variety of private label brands, creating the illusion of a competitive market to the consumer.

A product search barrier to entry is driven by Amazon's ability to manipulate the way consumers search for and view products within the marketplace. By leveraging sponsored ads, recommended products, and badging (Best Seller or Amazon's Choice), the potential exists for Amazon to use their search results page as a way to shift focus on their own products, making it harder for third party merchandisers to market their products. In the case that Amazon is warehousing the third party seller's goods, Amazon has the ability to leverage its AMS (Amazon Media Services) and AMG (Amazon Media Group) advertising platforms, along with powerful website badging including 'Amazon's Choice', to win the top listing. According to market research firm Millward Brown, 70% of all consumers will select a product on the first page of the search results, with less than 10% stating they would consider clicking through to at least the fourth page (Johnson, 2014). Given this research and Amazon's ability to

manipulate the search results, third party sellers whose products do not appear on the first page are at a stark disadvantage, with the risk of their sales plummeting as visibility to their product declines.

Another barrier Amazon is creating is the ability to provide a competitive product at a much lower cost, both to themselves and to consumers. By promoting private label products, Amazon is removing the middleman in the supply chain, substantially reducing the price of their private label brand products while still maintaining a profit. At the time of publication, AmazonBasics' AAA batteries were available on Amazon.com at a unit price of \$0.24, while Duracell's were listed at \$0.66. This substantial difference in cost coupled with Amazon's reputation for high quality, fast delivery, and easy returns leaves little reason to the consumer to not purchase from the AmazonBasics brand. As indicated previously, multiple merchandisers are starting to feel the direct effect of Amazon's private label brands as their costs are undercut by Amazon, creating a significant risk to sales and profits for third party retailers.

The last barrier, scalability, refers to Amazon's full ability to control the size of its marketplace. Even though it's an open platform for retailers to market their products, the amount of sellers is finite, limited by the capacity of Amazon's web servers. By Amazon having full control of the market, both within consumer-facing and producer-facing, they create a unique advantage that will ultimately give them full control over the future of their Marketplace.

In addition to the growing barriers defined above, Amazon also sets high service level benchmarks to ensure retailer compliance. Amazon requires and rigorously enforces their stringent service level agreements (SLAs) with its third party sellers. Amazon provides sellers with the ability to view their performance scores on a daily basis, along with the fees and fines the seller has accumulated for poor scores. To foster compliance, Amazon aggressively fines sellers for things such as late shipping and re-packaging needs. Over time, Amazon's SLAs will systematically contribute to the reduction of the total seller count within Marketplace.

While retailers are feeling added competition due to Amazon's private label brands, consumers on the other hand are benefiting enormously from Amazon's lower priced private label products. Not only are they able to purchase products with guaranteed fast delivery (as Prime customers, 100% of Amazon's private label brands are available, some exclusively), they are also almost always getting the best price available for a quality product. The benefit to the consumers is aligned with Amazon's obsession with the customer, indicating that consumers are always the top priority. The relatively quick adoption of Amazon's private label brands by consumers to date has ignited growth and fueled the foundation for Amazon to expand its product portfolio in the future.

Predictions

Amazon will continue to build upon its successes with private label until they have found a path to long-term profitability (at least at the product level). By controlling the entire supply chain all the way back to the manufacturers, Amazon has succeeded in their founder's mission to offer consumers the ultimate value by disintermediating retailers and other distributors and passing the cost savings onto the consumers. Amazon also understands that coupling this with removing themselves from Wall Street profit expectations, building the value of their Prime program, and offering the widest selection of products at the best prices, they have created sustainable value for consumers, shareholders and employees alike.

We predict from the trends identified in this paper that Amazon's private label business model will eventually extend to every category represented on their website, which will lead to higher profits while creating multiple barriers to entry from competitors in the U.S. market. As private label in particular dominates more product categories, more third party sellers will be forced out of Marketplace as well as manufacturers who can not achieve or sustain Amazon's required service level benchmarks. We predict that the compounded disruption in supplier/sellers caused ultimately by Amazon's private label brands will attract further attention of the Federal Trade Commission and other U.S. Government regulators. However, proving that Amazon is in violation of Section 2 of the Sherman Act by undermining the competitive nature of our free market may have little to none actual consequence.

Historically, it has been consumer pressure which drives government action against monopolies, as traditional monopolies create unfair market conditions for the consumer. However, even when the government wins its case the rulings tend to act like a 'paper tiger', having little or no impact on the single-company offender. History cites cases such as IBM and Microsoft where this effect (or lack of it) has been evident. It appears that the government has primarily been effective in discouraging monopolies when there is a proposed merger or acquisition between two or more companies. We predict that the following course of action will be taken with Amazon: complaints will be filed, Amazon will be summoned to testify in federal court, and the media will amplify the facts of Amazon's market share to the public. Once the case is closed and the media has moved on, it will be back to 'business as usual' for Amazon.

Until that day, we feel that government intervention is currently in a race with what appears to be early stage backlash against Amazon. There are several factors worthy of tracking in regards to this backlash, including the 'tall poppy syndrome' (Oxford, 2017) and the 'big brother' threat from a

company who is strongly influencing shopping habits of individual consumers, whether the consumer is aware of it or not. Another is the notion of 'coalition' meaning Amazon may appear to be a giant when compared to another other single e-retailer, but if multiple e-retailers, retailers, manufacturers and others in the supply chain banded together, Amazon may not be able to sustain its dominant share of e-commerce sales. Last but not least is the concept of 'portfolio management' which, from a manufacturer's perspective, is where no single retail account should represent more than an estimated 20%-30% of total sales (Corner, 2015). This practice will work against Amazon as they leverage their strength to negotiate even more unfavorable terms with manufacturers who in turn, may actively seek out other channels of distribution.

Some of these headwinds have been predicted by Bezos himself in his many memos to the company and famous shareholder letters but one, the 'Amazon.Love' memo, emphasizes the notion that consumer vote with their hearts as well as their wallet (Chhabria, 2017). It lists company attributes such as being polite and reliable, but also that inventiveness should be perceived as that of an explorer and not as a conqueror. So, how is Amazon doing with that perception? The answer may simply be, 'it depends on who you ask'.

Lessons Learned

The Size, Culture, and Growth Aspects of Amazon are Unique

Over the past twenty years Amazon has dramatically changed the retail industry, from both a consumer and merchant perspective. In writing this case study we first and foremost learned the measure and magnitude of control that Amazon has over almost every individual and corporation in the U.S. retail market. It is the fastest U.S. company to reach 300,000 employees (it took GM 32 years to reach that), and with its recent acquisition of the Whole Foods grocery chain and plans for a second headquarters, the company is now on track to exceed 500,000 employees ranking it second only to Walmart at 1.4M U.S. employees (Mandel, 2017; Soper, 2017). As previously stated, the company's sales make up ~44% of all U.S. e-commerce sales, representing about 50% of all e-commerce year-over-year growth and nearly 4% of all offline and online retail sales (Molla, 2017).

Much has been written about Amazon's unique culture, from its customer-first decision making to Bezos' brilliant leadership to manipulation of Wall Street investors, shunning traditional public company reporting of performance (profit in particular). While one of the US's largest retail companies, Amazon embodies a startup mentality by enforcing a strong culture of excellence and agility with its 'two pizza rule'. Given Amazon's uniqueness, it is hard to predict Amazon's future based upon previous

performance of other retail giants. It is clear that Amazon is a new type of corporation, one that is rewriting the rules of retail and challenging the boundaries of the monopoly through its undivided attention to the customer rather than the bottom line.

The Definition of Monopoly is Different Between Economics, Law, and Social

The main question we set out to answer within this case study, 'is Amazon a monopoly?', seems to depend upon the perspective of the person who is asking. From the point of view of an economist, a monopoly is a market structure characterized by a single seller who sells an unique product in an market with no competition or close substitutes, and who can enjoy pricing the goods at higher than market equilibrium. Amazon is well known for setting prices of their private label brands within Marketplace typically well below equilibrium and against fierce competition. Knowing this, we cannot characterize Amazon as a monopoly currently. However, through their private label brands, there is the potential that Amazon forces its competitors out of the market (Marketplace) and this definition can be applicable.

From a legal point of view, in order to be prosecuted (legally classified) as a monopoly Amazon would need to be in specific violation of the Sherman Antitrust Act (1890), the Federal Trade Commission Act and/or the Clayton Act (later amended by the Hart-Scott-Rodino Antitrust Improvements Act in 1976). It is interesting to note that together these Acts expand upon banning outright monopolies and delve into 'conspiracy to monopolize" and "conspiracy in restraint of trade" (Federal Trade Commission, 2013). Through our interpretations, we understand this to mean that Amazon does not have to explicitly have a visible monopoly in a product category to be brought to court. Together the acts are aimed at "...preserving free and unfettered competition as the rule of trade" (Federal Trade Commission, 2013). As with the economics definition, we make the same assumption under the legal definition of monopoly. Amazon currently cannot be classified as a monopoly, however future actions of the corporation -propelled by its private label business- create the imminent risk of legal prosecution under antitrust acts.

Lastly we define the social definition of a monopoly as the 'court of public opinion', whereby if enough consumers complain to their Congressman or Congresswoman about Amazon having a perceptive monopoly, it is enough for a probe and public hearings to be established. Given Amazon's reputation of providing high quality goods at competitive prices, consumers would be hard pressed to prove that they have been harmed by the e-commerce giant. However, it is critical to note that politicians may be inclined to act not on the consumer's behalf, but rather that of manufacturers/retailers who are pushed to bankruptcy by Amazon's predatory nature. Applying the

social definition, we cannot classify Amazon as a monopoly, nor can we foresee the corporation meeting the requirements as long as consumers continue to benefit directly from their services.

The Private Label Concept is Both Old and New

An understated learning of this case study is the business practice behind private labels, where a retailer contracts a manufacturer to develop a product under a brand label which is developed exclusively for sale in their stores. Nielsen data estimated that the private label market in 2016 was \$150B but these brands had humble beginnings (Durham, 2017). The original private label is attributed to Henry Sands Brooks who opened a clothing shop in NYC in 1818 called Brooks Brothers (Fitzell, 1982). Their golden fleece logo of a sheep suspended by a ribbon set a trend that continues to this day. Amazon's rapid adoption and expansion of private label is coming at a time when Target, whose house brands were so popular it established their nickname 'Tarz-shay', is redoubling their efforts. One of many new Target private label brands, Cat and Jack, reached \$2B in sales in just one year (Taylor, 2017). The trend of private labels is evidently here to stay.

The Backlash Against Amazon is Coming

Throughout our research it was clear that Amazon has awoken a sleepy retail channel. Although Amazon prides itself on secrecy, it's new formula for retail (e-retail) success is well studied by its competitors. Walmart.com in particular has committed itself fully to regaining its online dominance by way of acquisitions (& acqui-hires), new leadership (visionary founder of Quidsi and Jet.com, Marc Lore) and leveraging its significant store presence (Stone, 2017). It has launched a price-war by writing an algorithm which scours the web for low prices (similar to Amazon's) and forces Amazon to remove products that are not profitable. When Amazon executes this delisting process, Walmart has been known to quickly react and restate the original price on it's site. Amazon then realizes that they are now lacking product selection so they try to reinstate the product onto their site - and the loop continues.

We've learned that in general, the shopping environment that we are describing sounds like chaos but are convinced that this upheaval will lead to an amazing new era of consumer satisfaction at the expense of the retailers.

Conclusion & Recommendations

Summary of Findings

Amazon's CEO, Jeff Bezos, has a reputation of being one of the most brilliant business leaders of all time, with Amazon's success being directly credited to his leadership style. Over the past twenty

years, Bezos has created one of the largest internet companies of all time, one beloved by consumers and predatory towards competitors. Fueled by the optimism and outcomes of the Information Age, Amazon has transformed from a online book retailer founded in a garage into a household name, radically changing consumer buying behavior. The depth and breadth that Amazon has disrupted the retail (and specifically the e-commerce) industry is growing at an alarming rate, fueled by Amazon's desire to become the "earth's most customer-centric company" (Amazon 10K, 2017). Their unique culture and bench strength in digital innovation creates an extremely competitive advantage over traditional retailers, and it is clear from their financials that this strategy is propelling Amazon to success.

Amazon's most well-known product, Marketplace, enables Amazon and third party sellers with the ability to market goods and services to consumers around the globe. While at first glance the promotion of Amazon's Marketplace seems harmless, digging beneath the covers we realize exactly how much manipulation Amazon has over the entire supply chain, both that of their own and the merchants who sell on their website. Within the past ten years Amazon has created multiple private label brands, some with Amazon's brand name and others without, to compete directly with retailers it provides its Marketplace service to. The brands are created based upon proprietary sales data, allowing Amazon to quietly identify the product categories which will return the greatest margin. The negative effects of Amazon's private label brands and products are increasingly being felt by third party sellers on Amazon.com as they quickly lose market share to the e-commerce giant.

Looking towards the future, due to their current success with private label we believe that Amazon will continue to expand their investment in private label brands, branching out into new products and new product categories. Our conclusion brings us to acknowledge the fact that while Amazon cannot yet be classified as a traditional monopoly under the economic, law and social definitions, their private label brand business is the tipping point into providing the firm total control of the market and their Marketplace. Through this expansion the firm could possibly be tried as a monopoly in federal court, however analyzing the outcomes of previous monopoly cases, we are fairly confident that Amazon will not suffer any lasting impact.

The economy has changed drastically since the introduction of the internet and e-commerce websites, and the definition of the monopoly should be no exception. While conventional monopolies typically hurt the consumer with their ability drive high prices, Amazon has revolutionized the way consumers purchase products by driving prices down. They are creating a new definition of monopoly, a vertical monopoly, which instead isolates the negative impacts to members within the supply chain. The question to address now is what will come first? Given that an eventual roadblock is bound to appear for Amazon, will the retail giant be tried as a traditional monopoly, or will the laws be updated to extend to

corporations who have gained full control over the supply chain? There is also a third option, where neither happens and instead any fallout Amazon may experience in the future will be from the threat of retailer/manufacturer and consumer backlash. These options, combined with Amazon's thirst for total control, creates the next question of what the end state of Marketplace truly is.

What's Next? Our Recommendations

We have three recommendations which are required to further enforce the predictions of this case study. Our first recommendation is for supplementary research to be performed to further comprehend Amazon's market share in each major product category. While Amazon currently publishes very little about their diverse product portfolio, additional information is required to further solidify our assumptions. The second recommendation would be to conduct research on the impact to specific retailers, manufacturers and third party sellers to determine the total monetary amount in terms of lost sales, bankruptcy and market share. The findings within this case study looked at retailers as an aggregate, however we anticipate the specific impact of Amazon's private label brands will affect retailers in different ways, dependent on their size, maturity, and product portfolio depth. The last recommendation would be to expand past Amazon's private label brand and look at their impact holistically across the entire supply chain (including distribution). While we are confident in our conclusion that their private label brands are a tipping point to Amazon gaining control of e-commerce retail sales (not necessary a monopoly though), Amazon's roots go much deeper into the supply chain. Private labels are just the beginning.

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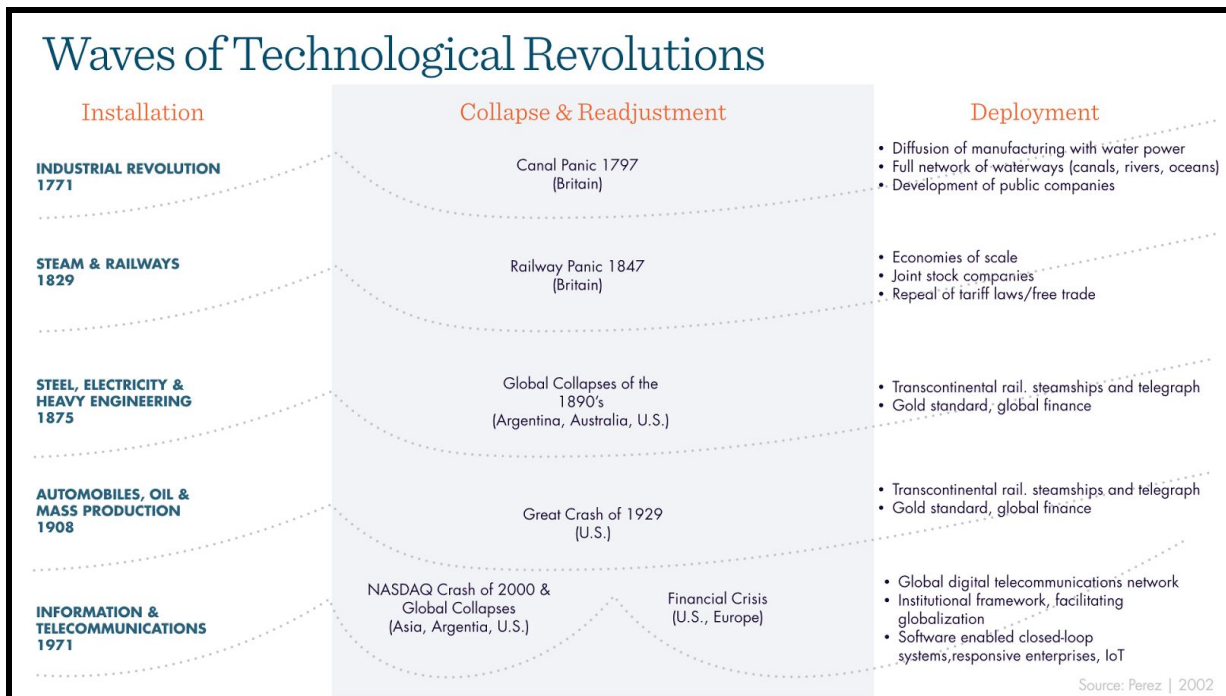
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Appendix

Appendix I: Waves of Technological Revolutions Chart (Perez, 2010)



Appendix II: Amazon's Leadership Principles

<p>Customer Obsession Start with the customer and work backwards; work vigorously to earn and keep customer trust; pay attention to competitors, but keep obsessing over customers</p>	<p>Ownership Think like an owner, long term and don't sacrifice long-term value for short-term results; act on behalf of the entire company, not just for your own team; never say "that's not my job"</p>	<p>Invent and Simplify Expect and require innovation and invention from your team and always find ways to simplify; be externally aware, always look for new ideas from everywhere, and don't be limited by "not invented here"</p>	<p>Leaders are Right. A Lot You have strong judgment and good instincts; you seek diverse perspectives and work to disconfirm your beliefs</p>
<p>Learn and Be Curious You are never done learning and you always seek to improve; you are curious about new possibilities and act to explore them</p>	<p>Hire and Develop the Best Raise the performance bar with every hire and promotion; recognize exceptional talent, and willingly move them throughout the organization; develop leaders and take seriously your role in coaching others</p>	<p>Insist on the Highest Standards You have relentlessly high standards - many may think these standards are unreasonably high; you are continually raising the bar and driving your team to deliver high quality products, services and processes; defects do not get sent down the line and problems are fixed so they stay fixed</p>	
<p>Bias for Action Speed matters in business. Many decisions and actions are reversible and do not need extensive study. We value calculated risk taking.</p>	<p>Frugality Accomplish more with less. Constraints breed resourcefulness, self-sufficiency and invention. There are no extra points for growing headcount, budget size or fixed expense.</p>	<p>Dive Deep Operate at all levels, stay connected to the details, audit frequently, and be skeptical when metrics and anecdote differ. No task is beneath you.</p>	<p>Earn Trust Listen attentively, speak candidly, and treat others respectfully. Be vocally self-critical, even when doing so is awkward or embarrassing; leaders do not believe their or their team's body odor smells of perfume; benchmark yourself and your team against the best.</p>
<p>Have Backbone. Disagree and Commit Respectfully challenge decisions when you disagree, even when doing so is uncomfortable or exhausting; have conviction and be tenacious; do not compromise for the sake of social cohesion;</p>	<p>Deliver Results Focus on the key inputs for your business and deliver with the right quality and in a timely fashion;</p>	<p>Think Big Thinking small is a self-fulfilling prophecy. Create and communicate a bold direction that inspires results. Think differently and look around corners for ways to serve customers.</p>	

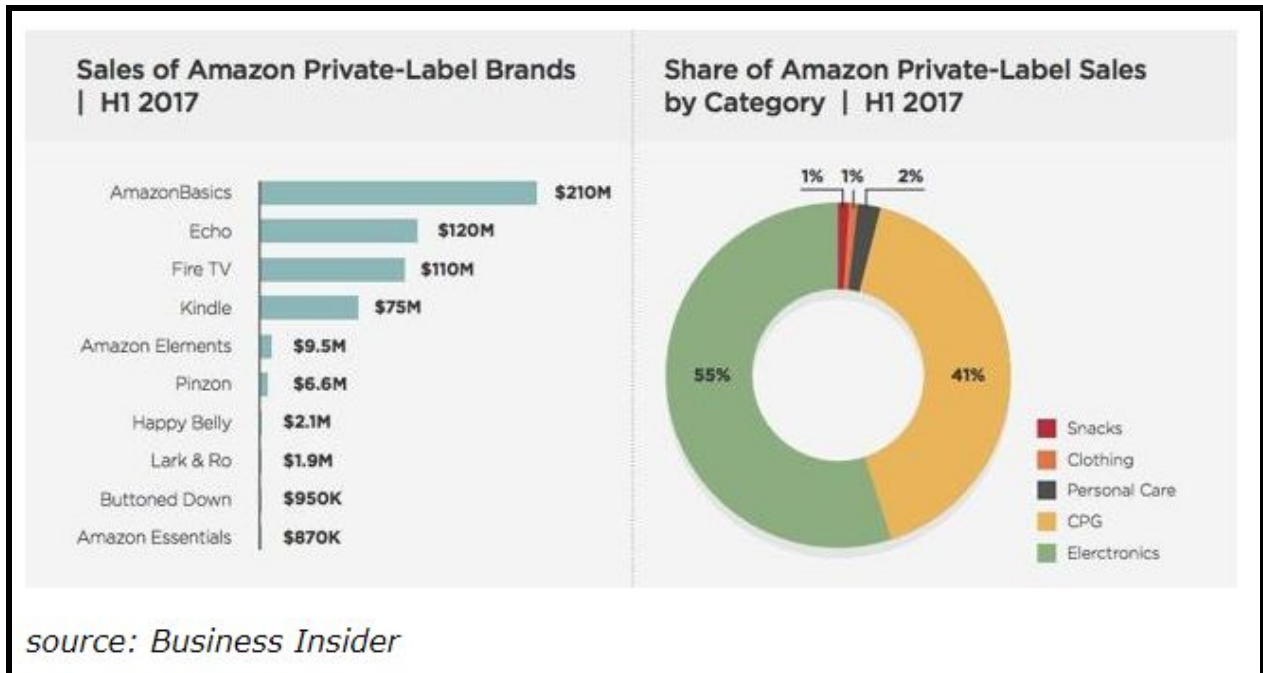
Source: <https://www.youtube.com/watch?v=B-xdfQv311k>

Appendix III: Insight into Amazon's Financial & Market Share

Graph showing % change in Amazon's stock price vs. S&P 500, Walmart, and Sears.



Graph showing estimates of the H1 2017 sales of Amazon Private Labels as well as the Share by Category



Appendix IV: Miscellaneous

Example of Amazon's Fees/Fines to Vendors and Sellers on the Marketplace when SLA's are not hit.

amazon

Chargebacks

0 - 25 of 242 total chargebacks. Sort by relevance

Order by: [View all](#)

0 chargebacks selected

Available actions: [Dispute chargeback](#)

Filter by: Request, name, or product ID

Filter: Product name, EAN UPC, EAN, FQID, charge

View Date range: 10/26/2017 to 11/26/2017

Chargeback ID	Purchase order/ Customer order	Status	Date	Product SKU	EAN UPC	Chargeback type	Financial charge
1186702440303	38790209	Charged	11/16/2017			Prep - Shipping	\$117.11
11867198040303	38790209	Charged	11/16/2017			Prep - Shipping	\$12.25
1186712240303	38790209	Charged	11/16/2017			Prep - Shipping	\$2.34
118671540303	38790209	Charged	11/16/2017			Prep - Shipping	\$11.76
1186716240303	38790209	Charged	11/16/2017			Prep - Shipping	\$25.20
11867167040303	38790209	Charged	11/16/2017			Prep - Shipping	\$5.88
1186718240303	38790209	Charged	11/16/2017			Prep - Shipping	\$2.34
1186714240303	38790209	Charged	11/16/2017			Prep - Shipping	\$5.28