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COMMENTARY

Consumers Beware: Amazon Monopoly Will Price Gouge

RICHARD BERMAN | 1/25/2018

As far as holiday hangovers are concerned, America's retailers have it the worst.

January is the retail industry's **peak season for bankruptcy filings**. For many retailers, holiday discounts just aren't enough to keep the doors open.

Last year was especially difficult. More than 20 retail chains — including **Radio Shack and Toys "R" Us** — filed for bankruptcy, and some were liquidated. Vitamin World plans to close **50 of its roughly 330 stores** as part of a restructuring plan. Vanity plans to shutter all of its 140 stores, while Radio Shack is expected to close 200 locations.

This year, analysts **expect Sears and J. Crew to file** for bankruptcy in the coming months, while news outlets **warn of a "retail apocalypse."**

What ails the retail industry is no secret: Amazon. In 2016, Amazon sold **six times as much online** as Walmart, Target, Best Buy, Nordstrom, Home Depot, Macy's, Kohl's and Costco. Combined. In 2017, it accounted for **nearly 50%** of all online sales. Imagine where Amazon will stand in 2018 and beyond.

But while the e-commerce giant's threat to retailers and their employees has become **well-documented**, the consequences of Amazon's market consolidation have gone largely unexplored. As it capitalizes on book sales, food delivery options, and even cloud computing services, the $662 billion market cap company is nearing monopoly status.

What do you stand to lose as Amazon's retail competition crumbles?

Purchasing power. When competition is eliminated, so too are incentives to keep prices low as a market disrupter. By destroying its competitors, Amazon is also extinguishing any repercussion traditionally associated with price increases — that is, a customer choosing a competitor instead of Amazon.

The company is already taking steps to drown out competition. A **ProPublica investigation of 250 frequently purchased products** found that Amazon's algorithm routinely prioritizes its own products on its website, as well as those of companies that pay for Amazon services. Roughly 75% of the time, Amazon prioritized these products as "suggested purchases" — even when there were substantially cheaper offers available.

As a case study, ProPublica's researchers analyzed listings for Loctite super glue. **TheHardwareCity.com**, a Texas retailer, was selling Loctite for $6.75 with free shipping. Fat Boy Tools, an Ohio competitor, offered the same product for $7.27 and free shipping.

But Amazon's algorithm brushed aside the cheaper offers and suggested the vial of glue sold by Amazon itself for $7.80, in addition to $6.51 in shipping costs. That's right: Amazon prioritized a product nearly double the price of competitor goods, simply because the glue was its own.

Amazon also uses its online marketplace as a laboratory to, **in the Wall Street Journal's words**, "spot new products to sell, test sales of potential new goods, and exert more control over pricing." On numerous occasions, Amazon has allowed online retailers to sell their products on **Amazon.com**, only to begin selling a nearly identical product as its own and giving the Amazon version preferable treatment in search results. As you might imagine, competitor sales decreased.

How long can it be until Amazon captures higher profits through price hikes?

The first sign of gouging came in the aftermath of Hurricane Irma, when Amazon **reportedly hiked prices** for bottled water in Florida. While a 24-case pack of Nestle water sold for $18.50 in the Northeast, Florida consumers reported the same package being sold for $25 a case in their area as demand skyrocketed.

What Amazon calls "dynamic pricing" should be a warning sign to its millions of loyal customers, who are most susceptible to situational preying behavior.

Barry Lynn, director of the New America Foundation's Open Markets program, **put it this way**: "This is the crushing of competition. Amazon is monopolizing commerce in the United States. Now Amazon is seeking to become the company when you say to yourself, 'I'm going to go buy something' you think Amazon."

Lynn's concern was echoed by 12 members of Congress last year, who **criticized Amazon in a letter** addressed to the Department of Justice and Federal Trade Commission. The letter, signed by Rep. Marcia Fudge, D-Ohio, and 11 other

Democrats, warned against further monopolization and argued the Amazon-Whole Foods merger "should be scrutinized beyond the normal antitrust review process."

Therein lies the antidote to the emerging Amazon monopoly. Our legislators should take a closer look at federal antitrust laws and treat Amazon as the threat to free-market competition it has become. They should also consider reforming internet sales taxes, an issue the Supreme Court **will revisit this year**, to properly account for Amazon's growing online market share.

Republicans must find their voice as well. No political party should ignore predatory pricing.

Berman is the president of Berman and Company, a public affairs firm in Washington, D.C.
