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The Hightower LOWDOWN

WRITTEN BY JIM HIGHTOWER

"There was a time not so long ago when 'competition' was a healthy thing, not a synonym for corporate 'murder.'"

– **BRYCE MILLIGAN**, owner of Wings Press, an independent publisher, describing Amazon's monopoly tactics.

The Amazon.com story, part 2: The tax-dodging predator

Amazon's ruthless practices are crushing Main Street —and threatening the vitality of our communities

EVEN BY THE ANYTHING-GOES ethical code of the corporate jungle, Amazon.com's alpha male, Jeff Bezos, is considered a ruthless predator by businesses that deal with him. As overlord of Amazon, by far the largest online marketer in the world (with more sales than the next nine US online retailers combined), Bezos has the monopoly power to stalk, weaken, and even kill off retail competitors—including going after such giants as Barnes & Noble and Walmart, as well as draining the lifeblood from hundreds of small Main Street shops. He also goes for the throats of both large and small businesses that supply the millions of products his online behemoth sells. They're lured into Amazon by its unparalleled computerized base of some 200 million customers. But once in, they face unrelenting pressure to lower what they charge Amazon for their products, compelled to give it a much better deal than other retailers can extract.

Lest you think that "predator" is too harsh a term, consider the metaphor that Bezos himself chose when explaining how to approach small book publishers to make them cough up ever deeper discounts to Amazon as the price of getting their titles listed on his website. As related by *Businessweek* reporter Brad Stone, Bezos instructed his negotiators to stalk them "*the way a cheetah would pursue a sickly gazelle*."

Bezos' PR machine tried to claim that this sneering comment was just a little "Jeff joke," but they couldn't laugh it off, for a unit dubbed the "Gazelle Project" had actually been set up inside Amazon. This top-level team focused on doing exactly what Bezos' metaphor instructed: Pursue vulnerable small publishers and squeeze their wholesale prices down to the point of no-profit on books they sell through Amazon, thus allowing the online retailer to underprice every other book peddler. When Stone exposed Gazelle last year in his book, *The Everything Store*, the project was suddenly rebranded with a bloodless name—"Small Publisher Negotiation Program"—but its mission remains the same.

Book beast

Amazon started as an online bookseller not because the boss had any love for published works, but because books were the product Bezos thought would be the fastest rocket he could ride to digital marketing dominance. Far from treating them as cultural treasures, books are referred to as "demand-weighted units" in the calculating, data-centric "culture of metrics" that guides all of Amazon's operations. Bezos even has an odd, visceral contempt for paper-and-ink books, preferring the digital reader called Kindle that Amazon introduced in 2007. "I'm grumpy when I'm forced to read a physical book, because it's not as convenient," he once grumped, adding that he's bothered by "turning the pages" and irritated that "the book is always flopping itself shut at the wrong moment."

No surprise then that his ambition was not simply to go into the book business when he launched Amazon in 1995—he was intending from the start to crash into it like an F5 tornado, bringing his computist savvy and zeal for dominance to the genteel world of book sales. In an insightful piece in *The Nation*, Steve Wasserman quoted a literary agent who pointed to one key reason that Bezos could so swiftly and completely overturn the prestigious publishing establishment: "This is a business run by English majors, not business majors."

The people who revere books as artifacts of civilization were completely unprepared for a guy who viewed literary works as widgets—and was both willing and able to reduce their world to splinters. Amazon's zip-zip, direct-to-customer internet business structure ripped right through the segmented system of publishers, wholesalers, distributors, bookstores, and big box retailers—and quickly became a monopolistic powerhouse. Today, this one corporation sells a stunning 40 percent of all new books, up from 12 percent five years ago. It is even more dominant in the digital book market, which is fast catching up to the sales level of physical books and is widely perceived as the future of publishing. Electronic books accounted for zero percent of sales just seven years ago; today about a third of all books sold are e-books—and some two-thirds of them are sold by Amazon. Also, it owns the Kindle, the biggest-selling device for reading these virtual books.

With his market clout, deep-pocket financing, and ferocious price-cutting, Bezos has forced hundreds of America's independent bookstores to close, which depletes the economic and cultural vitality of the communities they served. The online carnivore has also devastated the haughty superstore book chains that only a short time ago preyed on the local independents and dominated the market. Borders, the second-largest chain, couldn't keep up with Amazon's pace, succumbing to bankruptcy in 2011. Now, Barnes & Noble, the largest brick-and-mortar bookstore, is stumbling. It has lost millions of dollars, closed dozens of stores, shrunk most others, and suffered the embarrassment of its own board chairman frantically dumping big chunks of the Barnes & Noble stock he owns.

Grabbing for a lifeline, B&N recently hooked up with Google in a complicated online marketing scheme that's based in large part on the hope that consumers will rally to defend the nearest Barnes & Noble outlet as "their town's" local bookstore. Wow, there's a stinging indication of how much damage Amazon is doing to our culture. The business of books, which previously had been human-scale and rather communal in nature, is now so thoroughly concentrated in the hands of King Bezos that even the definition of "local" has been perverted to mean not-at-all-local.

Bezos' online empire not only stands alone as the paramount bookseller, but also the dominant price setter, the arbiter of which titles get the best access (or none) to the biggest number of buyers, the most powerful reviewer of books, the publisher of its own line of books, the keeper of an in-house stable of writers—and even the sponsor of a major book prize.

He achieved this the old-fashioned way: Brute force. While it's true that Amazon is innovative, highly efficient, and focused on customer satisfaction, such competitive factors do not elevate you to the level of commanding control that his corporation exercises. To reach that pinnacle, Bezos followed the business path mapped by Rockefeller and other 19th Century robber barons: **(1)** ruthlessly exploit a vast and vulnerable low-wage workforce; **(2)** extract billions of dollars in special government subsidies; and **(3)** wield every anti-competitive tool you can find or invent to get what you want from other businesses.

Advantage Amazon

Doing all of the above—with no mercy to anyone—is how Bezos became the beast of books. But he always intended to dominate more than that. Using the monopoly rents* gained from his digital book kingdom, as well as the three power plays itemized above, he has laid siege to the market for nearly all consumer products—and to America's business culture itself, stripping out every value except efficiency and price.

Few people realize it, but Amazon's massive book dominion is now dwarfed by its deliberate annexation of dozens of other product lines. From A to Z—appliances to zucchini—the internet conglomerate really has become the "everything" store. As a result, *books now make up a mere seven percent of Amazon's total business.*

Its explosive sales growth in recent years has come from Bezos' realization that his cheetah business model could be applied to any number of product categories being sold in neighborhood shops and suburban malls. Quietly but quickly, he has been poaching millions of customers from those retailers, captivating them with the same dazzling, deeply discounted prices he used to conquer and remake the book business.

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Increasingly, shoppers (especially those under 50) are less inclined to go to the store than go online for most of their purchases —and Amazon has already captured more than a third of all online sales. In effect, its website is a phantasmagoric mall of unimaginable size, containing what amounts to hundreds of virtual superstores for each and every product line shoppers want.

Without actually "being" anywhere and without hiring any sales clerks, Amazon is now a top seller of such consumer goods as baby products, jewelry, groceries, sports equipment, cosmetics, auto parts, pet supplies, luggage, kitchen gadgets, musical instruments, garden tools—even sex toys!

The highly touted chase for cheap is great for Amazon, which has been doubling its sales every two or three years, but it is proving intolerably expensive for your and my hometowns. Our local businesses lose customers and have to close, workers lose jobs and income, and local economies lose millions of consumer dollars that Amazon's digital pipelines now siphon into its faraway coffers.

Even more intolerable is the little-known fact that Amazon's gain is ill-gotten, obtained by such dirty deeds as these:

THE AMAZON SUBSIDY. Bezos would not have grabbed such market dominance if government had not been subsidizing his sales with special tax breaks for 20 years. In all but three states, every merchant is obliged by law to collect city and state sales taxes from everyone who buys stuff from them. But Amazon, as an online merchant, has avoided adding these taxes to the price that its customers pay.

Central to the business plan that Bezos drew up in 1994 was a loophole he'd found in a Supreme Court ruling just two years earlier: If a retailer has no physical presence in a state, it need not collect sales taxes. So, he has emphatically insisted from the start that Amazon's only facility is its headquarters in Washington State, claiming therefore that Amazon sales are exempt from taxes in the other 49 states—even though he racks up billions of dollars in sales every month in those states, and even though Amazon has massive warehouses in about half of them. With legalistic hocus-pocus, Bezos asserts that the warehouses are independent contractors, not part of Amazon.

Here in Texas, the sales tax rate is 8.15 percent, so by claiming to be exempt, Amazon gets a price subsidy of more than eight cents on every dollar of its sales—more than the entire profit margin of most independent shops! The tax subsidy ranges from about four to more than ten percent across the country, handing Bezos a totally unwarranted competitive advantage of several billion dollars a year that has underwritten his fast and vast expansion into every market.

Amazon's devious tax ploy has been key to its ability to underprice our hometown retailers, forcing so many of them out of busi-

*Originally a term for a landlord's power to extract rents on farmland above its productive value. It now applies to a corporation's use of its market dominance to reap profits through price-setting and other anti-competitive tactics. The profits don't reward the corporation's productive ability, but its sheer market power.

ness. But the tax dodge also shortchanges our communities by eliminating billions of dollars in annual tax revenues that cities and states desperately need for schools, infrastructure, parks, and other public services.

During the past couple of years, 21 states have stopped playing the fool, finally requiring Amazon to collect sales taxes like its competitors do. Interestingly, in a study released this year, the National Bureau of Economic Research analyzed retail data of five of these states and found that Amazon's sales plummeted by nearly 10 percent after they eliminated the subsidy. It was the absence of sales tax—not any Bezos "magic"—that drew customers to his online mall. Of course, that's cold comfort to the people driven out of business during two decades of Amazon's government-backed assault.

"But wait," as they say on late-night TV infomercials, "there's more!" Amazon's amazing slice & dice tax machine not only avoids paying state taxes, but it is also extracting tax money from states. In expanding its massive warehouse network, this supremely rich company says that states that want the jobs that come with its warehouses must show Amazon the money—i.e., offer "incentive grants" or tax breaks. Never mind that these jobs are low-wage, no-benefit, temporary, and dehumanizing (see last month's *Lowdown*). Governors are bowing to Bezos and throwing millions of their taxpayers' dollars at him to "win" a warehouse.

Wait, there's even more. Amazon also dodges its tax obligations to our nation (as well as payments it owes to England, France, Germany, and elsewhere) by using the gimmickry of an offshore tax haven. Through a convoluted system of inter-corporate payments, a major portion of Amazon's global revenue is funneled into the tiny Grand Duchy of Luxembourg. There, its tax rate is shriveled to barely five percent! Plus, this royal hideaway has allowed Amazon to stash $2 billion in tax-free cash there—money to finance its takeover of more markets.

In short, Amazon's famous and alluring price discounts are less the product of enterprise than of flimflammery and governmental favoritism—helping it overwhelm honest competition and extend its monopoly reach.

THE AMAZON CRUSH. Having overweening market power means never having to say you're sorry. Even to your owners. Besides government subsidies, Bezos has the corporate funds to be a voracious predator because his Wall Street investors have allowed him to keep operating without returning a profit to them. On paper, his revenue-generating machine has lost billions of dollars. Yet, his major investors haven't pulled the plug, for they've been mesmerized by Amazon's phenomenal, non-stop growth in sales and its takeover of one consumer market after another.

What appears to be happening is that Amazon is actually making very strong profits, but simply not declaring them as such. Instead, it's using that money **(1)** to buy its competitors and **(2)** to market its own version of competitors' products, which Amazon then sells at a loss in order to squeeze the hapless competitors out of business. That's the very definition of predatory pricing.

Brad Stone's book gives a chilling example of one such predation. Amazon has its own corporate espionage team called Competitive Intelligence that tracks rivals. In 2009, CIAmazon spotted a fast-rising online seller of one particular baby product: *Diapers.com*. A Bezos lieutenant was dispatched to inform the diaper honchos that the cheetah was going into that business, so they should just sell their firm to it. No thanks, replied the upstart.

Amazon promptly responded to the rebuff by marketing another line of diapers—with a price discount of 30 percent. It kept dropping the price even lower (plus free shipping) when the small firm tried to fight back. *Diapers.com's* investors grew antsy, and in September 2010, the two founders of the company met with Bezos himself and surrendered. The final blow was their discovery that Bezos was on track to lose $100 million in just three months in his campaign to crush them and control the market of online diaper sales.

Such ruthlessness is standard operating procedure at Amazon, which exerts it against any gazelle it chooses to eliminate. This likely includes some of your town's **Main Street stores**. Small retailers everywhere are experiencing an ugly practice dubbed "showrooming." For example, John Crandall, owner of Old Town Bike Shop in Colorado Springs, has seen a surge of shoppers who come in, check out the bikes and accessories he sells, ask a lot of questions, try out some bikes—but leave without buying anything. Then they'll show up later with a new bike, asking Old Town to assemble it for them! What happened is that these shoppers used their smartphones in Crandall's store to scan the barcode of a product they wanted—then went online to buy it from Amazon at a discounted price—lower than Crandall's wholesale price.

> *"Books now make up a mere seven percent of Amazon's total business."*

Amazon's new smartphone, called Fire (apparently meant in the sense of "shoot to kill"), is specifically designed to make showrooming fast and easy. Amazon has even offered $5 rebates to

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AMAZON'S RUTHLESS PRACTICES ARE CRUSHING MAIN STREET— AND THREATENING THE VITALITY OF OUR COMMUNITIES

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shoppers who scan items at stores, then buy them from the online brute. This is corporate murder. After 38 years in business, Old Town is hanging on, but it's endangered. Crandall employs 11 people, pays rent and local taxes, supports all sorts of community events, and is fully involved in Colorado Springs—a place Bezos couldn't care less about.

Amazon also shows no mercy to **companies that provide the products it sells**. You'd think this would be a felicitous, symbiotic relationship: Producers need the marketplace, the marketplace needs products. But when the market grows into a virtual monopoly, the monopolist can turn on suppliers with a vengeance. Amazon has done precisely that to book publishers. While Amazon's fight with international publishing giant Hachette has been well publicized, it's medium-sized and small publishers that are especially vulnerable. They don't have splashy marketing budgets, so they're largely dependent on access to the buyers coming to Amazon's online market.

"I offered them a 30 percent discount," the head of a small academic publishing house told the *New York Times* this year. "They demanded 40," she said. Having acquiesced to that, however, the cheetah soon came back, demanding 45. "Where do I find that five percent?" she asked. "Amazon may be able to operate at a loss, but I'm not in a position to do that." She can't leave, but staying could crush her company: "I wake up every single day knowing Amazon might make new, impossible demands."

Tell Jeff: NO

Amazon's calculated ruthlessness toward employees, suppliers, and competitors it must be publicly scorned and rejected. This is going to be up to us grassroots folks, for the political, Wall Street, and media establishments are too busy glorifying the e-commerce giant to bother peeking behind its tightly drawn PR curtain.

Rather than examining the far-reaching social destructiveness (and inherent immorality) in Amazon's business model, the Powers That Be blithely hail Bezos as an exemplary corporate leader for the digital age and point to his creation as a model for the New Economy. They smile cluelessly, rather than frown, when he says that it's not him killing off local businesses and turning work into a low-wage, roboticized nightmare—rather "the future" is producing these changes.

That's creepy, yet Bezos has gotten away with such hornswoggle up to now by endlessly reciting his mantra that EVERYTHING Amazon does is to benefit consumers by relentlessly lowering prices. But price is not value. And exchanging value (as well as our society's values) for his low prices is a raw deal.

No, JEFF, not in my name!

BEZOS CONSTANTLY CLAIMS that his relentless push for an Amazonian remake of our economy and culture is all about helping consumers. Well, I'm a consumer—and he certainly doesn't speak for me. How about you?

I oppose his **exploitation** of workers, his **bullying** of suppliers, his **gaming** of the tax laws, and his anti-competitive **assaults** on small businesses. As consumers, let's tell Bezos to speak for himself and to cease using us as a front for his own disgraceful greed.

Send a message to Bezos:

NOT IN MY NAME!

Send it with your own personal comment to: *jeff@amazon.com* or Jeff Bezos, Amazon.com, Inc, 410 Terry Ave. N, Seattle, WA 98109. And please send a copy of your message to us at *info@jimhightower.com* or at 81 San Marcos St., Austin, TX 78702.

I don't want a price that's stained with gross worker exploitation, the crushing of local enterprise, and the creation of a corporate oligarch. Stacy Mitchell, an intrepid researcher with an excellent group named the Institute for Local Self-Reliance (*www.ilsr.org*), has been studying Amazon's impact for several years and rightly says that to avoid a sterile Amazonian future, we must force "a public conversation about their power." Unlike Walmart, Amazon is largely invisible to most people—as Mitchell puts it: "All you really see is the website and then the FedEx guy is there."

We need to let more people know what's going on behind that jazzy website, for Amazon is insidious, far more dangerous and destructive to our culture's essential values of fairness and justice than even Walmart would dream of being. So I hope you'll join in our *Lowdown* campaign to say no directly to Bezos. He's imposing his narcissistic corporate order in the name of consumers—so this is a time when we should ***speak out as consumers***. See the box above and tell Jeff: NOT IN MY NAME.

The August issue of the *Lowdown* focused on how Jeff Bezos and Amazon exploit their low-wage workers. We encourage you to make copies of both our August and September issues and circulate them to friends, family, co-workers, groups, et al., asking them to send their own NOT IN MY NAME! message to Bezos.