Jim Hightower, Amazon, part 2 of a two-part series

*The Amazon story, part 2: The tax-dodging predator*

**Amazon’s ruthless practices are crushing Main Street**

**By Jim Hightower**

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—going after such giants as Barnes & Noble and Wal-Mart and draining the lifeblood from hundreds of smaller 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 database of some 200 million customers, but once in, they face unrelenting pressure to lower what they charge Amazon for their products, compelled by the company to give it much better deals 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 get small book publishers to cough up deep discounts as the price of getting their titles listed on the Amazon 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 to Amazon down to the point of no profit, 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.

Today, Amazon 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 book sales were non-existent just seven years ago; today about a third of all books sold are e-books, and Amazon sells two-thirds of those. Of course, Amazon also owns Kindle, the largest-selling device for reading digital books.

With his market clout, deep-pocket financing, and ferocious  price-cutting, Bezos has forced hundreds of America’s independ ent bookstores to close and has humbled the superstore  book chains that once preyed on the independents and dominated the market. Borders, the second-largest chain,  succumbed 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 Barnes & Noble stock.

Bezos’ online empire not only stands alone as the paramount bookseller, but is 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, efficient, and focused on customer satisfaction, such factors alone did not elevate Amazon to its commanding level of market control. To reach that pinnacle, Bezos followed the 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 government subsidies; and (3) wield every anti-competitive weapon you can find or invent to get what you want from other businesses.

**What’s the matter with Main Street?**

Through doing all of the above, Bezos has applied his cheetah business model to nearly everything retail. Amazon’s massive book dominion is now dwarfed by its annexation of dozens of other markets -- book sales now make up a mere seven percent of Amazon’s total business. Amazon has already captured more than a third of all online sales with a website that’s a phantasmagoric mall of unimaginable size, containing what amounts to hundreds of virtual superstores.

In the process, and with the same deeply discounted prices they used to conquer the book business, Amazon has poached millions of customers from neighborhood shops and suburban malls. The chase for cheap has been great for Amazon, but it is proving intolerably expensive for your and my hometowns. Our local businesses lose customers and have to close, local workers lose jobs, and local economies lose millions of consumer dollars that Amazon siphons into its faraway coffers. What makes that even more intolerable is that much of Amazon’s competitive advantage has been ill gotten, obtained by dirty deeds.

**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 a handful of states, merchants are 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.

Bezos has emphatically insisted from the start that Amazon’s only facility is its headquarters in Washington state, claiming therefore that Amazon’s sales in the other 49 states are exempt from sales taxes -- even though he racks up billions of dollars in sales 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 con- tractors, not part of Amazon.

In Texas, where I live, 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—that’s 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 an advantage of several billion dollars a year that has underwritten his fast and vast expansion.

Amazon’s tax ploy has been key to its ability to undercut the prices of local retailers, forcing many of them out of business. And the tax dodge has also shortchanged our communities by eliminating billions in 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. In a study released earlier 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 started charging sales tax. It was saving the cost of sales tax—not any Bezos “magic”—that kept many customers buying from his online mall. Of course, that’s cold comfort to the retailers 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-and-dice tax machine not only avoids paying state taxes, but it also extracts tax money from states to expand its warehouse network. This supremely rich company says that states wanting the (low-wage, no-benefit, temporary, and dehumanizing) jobs that come with its warehouses must show Amazon the money, i.e., offer “incentive grants” or tax breaks.

In short, flimflammery and government favoritism help Amazon 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. Beyond taxpayer subsidies, Bezos can afford to be a voracious predator because his Wall Street investors have allowed him to keep operating without returning a profit. On paper, his revenue-generating machine has lost billions of dollars, yet his major investors, enamored with Amazon’s takeover of one consumer market after another, haven’t pulled the plug. Amazon uses their capital to buy its competitors and/or to market its own version of competitors’ products, which it then sells at a loss in order to squeeze 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 smaller 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, in his campaign to crush them and control the market of online diaper sales, was on track to lose $100 million in just three months.

**SHOWROOMING.** 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 he sells, ask a lot of questions, try out some bikes—and leave without buying anything. Then, some days later, they’ll show up at the store with the parts for a new bike and ask Old Town to assemble it for them! These shoppers have used their smartphones in Crandall’s store to scan the barcode of a product they like and then gone online to buy it from Amazon at a discounted price—lower than Crandall’s wholesale price.

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 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.

**MONOPOLY, FOR REAL.** Producers need the marketplace, the marketplace needs products. You’d think this would be a felicitous, symbiotic relationship, 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 who 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. After she acquiesced to that, the cheetah soon came back, demanding 45. “Where do I find that five percent?” she asks. “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.”

**It’s Time to Tell Amazon: No More**

Rather than examine the far-reaching social destructiveness in Amazon’s business model, the Powers That Be blithely hail Bezos as an exemplary corporate leader and point to his company as a model for the New Economy. They smile cluelessly when he says that it’s not Amazon killing off local businesses and turning work into  a low-wage, roboticized nightmare— rather it’s “the future” that is producing these changes.

Bezos has gotten away with this hornswoggle up to now by endlessly reciting his mantra that EVERYTHING Amazon does is to benefit consumers by relentlessly lowering prices. But 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. It’s up to us to reject this way of business.

Stacy Mitchell, an intrepid researcher with the Institute for Local Self-Reliance (www.ilsr.org ), has been studying Amazon’s impact and rightly says that to avoid a sterile Amazonian future, we must force “a public conversation about their power.” Unlike Wal-Mart, 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.”

More people need to know what’s going on between that jazzy website and “the FedEx guy,” for Amazon is insidious, far more dangerous and destructive to our culture’s essential values than Wal-Mart ever dreamed of being. Remember: price is not value. Exchanging value -- and our society’s values -- for Amazon’s low prices is a raw deal.

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Sidebar:

**Mr. Bezos comes to Washington**

Through much of its storied history, *The Washington Post* has been a proud truth-telling newspaper of national importance. From exposing consumer rip-offs and environmental horrors to uncovering the Watergate scandal that consumed Dick Nixon's presidency, the *Post* has practiced Journalism with a capital J.

In recent years, though, crimped by changes in the newspaper business, the *Post* had been focusing more on cutting newsroom costs than on a watchdog role. Then, late last year, the Graham family sold the legendary *Post* to the avatar of Amazon, Jeff Bezos.

Why would the master of digital marketing metrics want a newspaper? Was it just a lark?

Let’s stay real – Jeff Bezos doesn’t do larks. The *Post,* of course*,* is the paper of record at the epicenter of our government, read by practically every congress critter, agency head, lobbyist, and anyone else with an interest in Washington doings. And Amazon's doings are increasingly tied to the Capitol city – including possible anti-trust probes of its practices, its secret push to get a $600 million contract to build the CIA's cloud, the funneling of global income through Luxembourg, and its treatment of low-wage warehouse workers.

And now Mr. Amazon owns a newspaper that helps shape the debate on virtually every topic of public importance -- including those that affect his grand ambitions. Bezos didn't buy a newspaper. He bought power.