

Amazon Is Eating The World

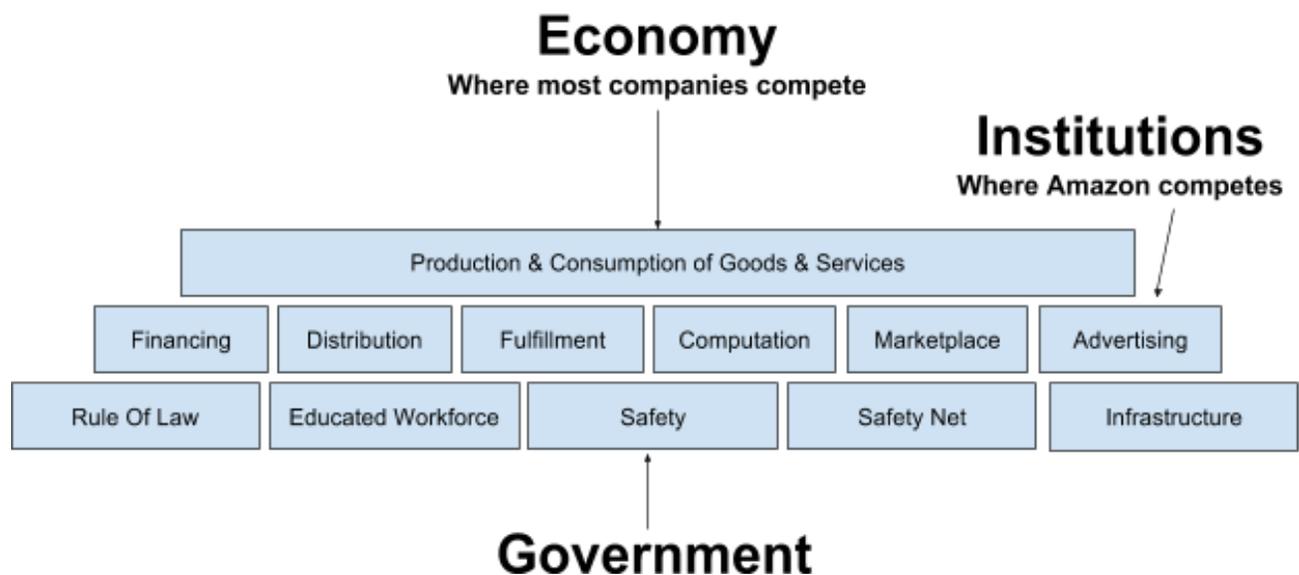
In order to compete with this 800lb Gorilla, you need to realize that it isn't just a company; it's an economy.

What business is Amazon actually in?

If this is the question you're asking, you've already lost. This is a typical question you'd ask about a typical company. Amazon, on the other hand, breaks every box that people try to put it in. In order to compete with the behemoth, you need to start asking yourself a different question: is Amazon even a company in the traditional way we think of companies?

Rather than creating a suite of products using traditional business strategy, Amazon is trying to facilitate how everything is bought and sold across the world. Amazon isn't just "the everything store"; it aims to be "the everything economy."

Similar to how governments create institutions to facilitate trade, the company is systematically putting in place institutional pillars that make it easier for producers and consumers to buy and sell products. Amazon then takes a [percentage of the cut](#), similar to how governments levy taxes.



Amazon is going down the pyramid while other companies are going up.

For producers, Amazon [provides financing](#), helps store [physical](#) and [digital](#) inventory, provides delivery (via air, ground, sea, and online), offers [space in its stores](#), manages [transactions](#), and even helps people get [new customers through advertising](#). More fundamentally, Amazon helps producers get started and focus on what they do best. It does this by turning high fixed costs into

low variable costs while increasing reliability. For example, with Amazon Fulfillment, sellers don't need to buy warehouse to store items and hire a team to pack and ship them. They can simply pay a fee for each item shipped.

For consumers, Amazon relentlessly lowers prices, reduces shipping times, expands choice, and makes customers happy.

These benefits create a synergistic cycle that is pulling more and more businesses and consumers into the Amazon economy, and as more join, the benefits become bigger and bigger. Jeff Bezos claims that the benefits of joining Amazon Prime are so compelling “[that you're not being responsible](#)” if you don't join. No doubt Bezos envisions a day when the same will be true for the Amazon economy overall, if it isn't already.

I call this the Economy Pyramid Strategy, and the fact that it's working so well has major implications for consumers, business, and society overall. Could this strategy revolutionize how business strategy is taught? Could Amazon establish its own government? What happens when one company has so much power (see James Patterson's most recent bestseller, [The Store](#))?

For the purposes of this article, we're going to focus on one implication: if you are a big brand or retailer, what should you do to avoid being sucked into this massive, speeding snowball?

While the Amazon economy empowers tens of thousands new merchants, it is literally eating other companies alive. [There is a direct correlation](#) between the growth of Amazon's market value and the decrease of Amazon's competitors. Amazon lets other companies experiment on their platform, but when those categories take off, it launches its own brand, and undercuts its competitors on price and placement within the Amazon store.

While the situation is dire for big brands, it's not indefensible. We've explored companies that have been able to successfully compete with Amazon and have distilled the top five strategies:

Strategy #1: Own the pre- and post-transaction experience

If we have to, we as consumers purchase products and assemble solutions on our own, but when a company offers a ready-made solution that saves us time and effort (at a price we can live with), we're grateful.

Meal delivery companies, for example, have leveraged this basic insight to create a new multibillion-dollar category. Cooking a meal is time consuming: go to the supermarket, fight through the crowds order to find a few ingredients, wait in a long line, lug your bags home, put everything away, measure and chop the ingredients, and assemble the meal.

Meal delivery companies like [Blue Apron](#), [HelloFresh](#), and [Freshly](#) eliminate all of these chores but

the last one by shipping pre-made meals that require very little prep. (Amazon launched their own [meal kit delivery service in July](#) in order to catch up after falling behind for five years.)

Innovative companies across other categories are offering all-in-one solutions too. When it comes to selecting clothes, office equipment, or home furnishings, making informed decisions can be overwhelming and require hours of research. Several brands have emerged that help with free consultations: [Trunk Club](#) (personal stylist gives fashion recommendations via webcam), [Williams Sonoma](#) (offers free, in-home consultations on home design), [Poppin](#) (offers free consultations and sells furniture collections rather than just single furniture pieces), etc.

Once you've selected what you want to buy, sometimes extra effort is needed to actually assemble, install, learn how to use it, customize it, and then repair it once it breaks. [Enjoy](#), started by famous retail exec Ron Johnson, offers free same-day delivery of smart home and tech products by an experienced technician who installs and teaches you how to use them. All for the same price as buying it in the store. [Nordstrom is launching Nordstrom Local](#), smaller stores that, among other innovations, offers on-site tailoring to help people ensure their new clothes fit perfectly.

Strategy #2: Turn your services into a platform

The fastest-growing companies in history, such as Google, Facebook, Uber, Airbnb, Amazon, and Netflix, are all platforms. The platform business model captures the most profit, builds a moat that is hard for competitors to cross, and scales quickly once it reaches critical mass. While building up a global workforce of employees to offer support services may take massive amounts of time and capital, a platform can get there in a fraction of the time. And, if you don't do it in your niche, it's likely that Amazon will — if it hasn't already.

[Amazon Services](#) uses a platform model to deliver hundreds of services at scale including services with and for the home, automotive, electronics, yard and outdoor, assembly, health and wellness, lessons and classes, and pet services. It even has an Uber-like service, [Amazon Flex](#), which has drivers in 30 cities who deliver Amazon products.

The good news is that if you want to compete with Amazon to build a platform, you can! By focusing on your niche, you can play to your strengths, particularly your unique understanding of your customer, in order to more effectively recruit, vet, train, and manage a network of service professionals and help them solve the specific problems that customers in your niche face.

The most successful platforms in the world aren't ones that offer every service under the sun. They are ones that are the most focused. For example, TaskRabbit is a platform where anybody could get any service from anyone else. While the company has raised \$40 million and is successful, it pales in comparison to Uber, even though Uber is just one category. On any given day, Uber drivers [complete 70,000 rides in New York City alone](#), while TaskRabbit freelancers complete only 550 jobs across United States.

Netflix founder Reed Hastings captures the power of focus [in a recent interview with Recode](#). When asked why Netflix has no plans to add live sports, he explained:

“We’re not trying to meet all needs. So, Amazon’s business strategy is super broad. Meet all needs. I mean, the stuff that will be in Prime in five or ten years will be amazing, right? And so we can’t try to be that — we’ll never be as good as them at what they’re trying to be. What we can be is the emotional connection brand, like HBO or Netflix. So, think of it as they’re trying to be Walmart, we’re trying to be Starbucks. So, super focused on one thing that people are very passionate about.”

Companies that have successfully built a niche marketplace that offers services include Pampered Chef (kitchenware), [Chloe & Isabel](#) (jewelry), and [HomeAdvisor](#) (home services).

Strategy #3: Reduce every point of friction in your customer’s journey until you hit a ‘wow tipping point’

In a social media world, your customer experience IS a very meaningful part of your marketing. When people love what you do, they leave rave reviews on review sites. They share their experience using your brand on social media. They volunteer feedback in order to help you improve. They’re first in line when a new product launches. In other words, a great product is often the foundation for great marketing.

A hallmark of many of today’s most successful companies, like Apple, is that they don’t stop improving their product once it’s good enough. They identify every interaction their brand has with a customer and aim to make it a ‘Wow!’ experience. It’s not just tech firms; retailers are taking note as well. Warby Parker, for example, meticulously plans everything from [the in-store placement of their eyewear](#) to tiny design details. At each step along the way, Warby Parker reduces friction. In return, people queue for hours when the company launches a new product.

Fortunately, customer experience isn’t one size fits all. For example, Amazon has a [maniacal focus on low prices, fast delivery, and customer centricity](#). This has led them to hide their customer support phone number from their website. Zappos, on the other hand, became a billion-dollar e-commerce company with the same focus on customer centricity, but with a different approach to hitting the wow tipping point. Instead of hiding its phone number, it puts it on the top of every page. Its call center staff is trained to be quirky and go overboard in order to satisfy customers.

To reduce the friction at every step of your customer’s user journey, leverage your own customer data to uncover friction points and relentlessly remove them. Start by removing glaring problems. Then keep going until you reach the ‘Wow!’ tipping point.

Strategy #4: Create a must-have brand and then use it as leverage

One of the biggest threats to Amazon is the power of brand. A truly powerful, must-have brand like Apple or Disney doesn't need Amazon.com to succeed. They have built a direct relationship with the consumer. As a result, Amazon has lost tens of billions of dollars in potential revenue because people buy Apple products on Apple.com or in the Apple Store.

Furthermore, Amazon's whole business model is antithetical to people's innate desire to display their personality and status through what they purchase. There is always going to be a segment of people who value self expression over low prices and convenience. The luxury category is one of Amazon's Achilles' heels.

Amazon is confronting the 'brand' threat in two ways. First, it has shown that it's not afraid to build or [acquire its own brands \(19 in total\)](#). Second, Amazon leverages its data on which products sell best in each category to launch its own generic brand, AmazonBasics, which now has [over 3,000 products](#). In each category these products appear in, they are featured.

Amazon's second approach is commodifying brands by forced discounting, using its direct relationship with customers and audio purchasing to push competing commodity brands. With Amazon Alexa, customers can say, "Buy toothpaste," and Amazon will send its recommended toothpaste rather than the toothpaste with the best brand, for example.

Make no mistake, Amazon is trying to destroy the value of branding overall and learn from your customers in order to compete with your most profitable products. Bezos' famous saying, "*your margin is my opportunity*," is particularly relevant here. Branding creates a perception that facilitates charging a higher price. Bezos is attacking that pillar of higher prices.

By having a must-have or a luxury product, you give yourself choices on how to leverage your brand: **using an embargo period** (Netflix keeps its original content exclusive to Netflix for a certain number of days and then sells it on iTunes and other platforms. The other platforms are not only sources of cash, they are also marketing, **allowing just some products to be sold on Amazon** ([1-800-Flowers](#) sells some brands on Amazon and others only on its own site.), **not selling on Amazon at all** ([Birkenstock](#), for example, prohibits its sellers from selling on Amazon. Sales [tripled to \\$800 million last year](#)), and **partnering exclusively with one brand**. (Martha Stewart has a [multi-year exclusive agreement with Macy's](#)).

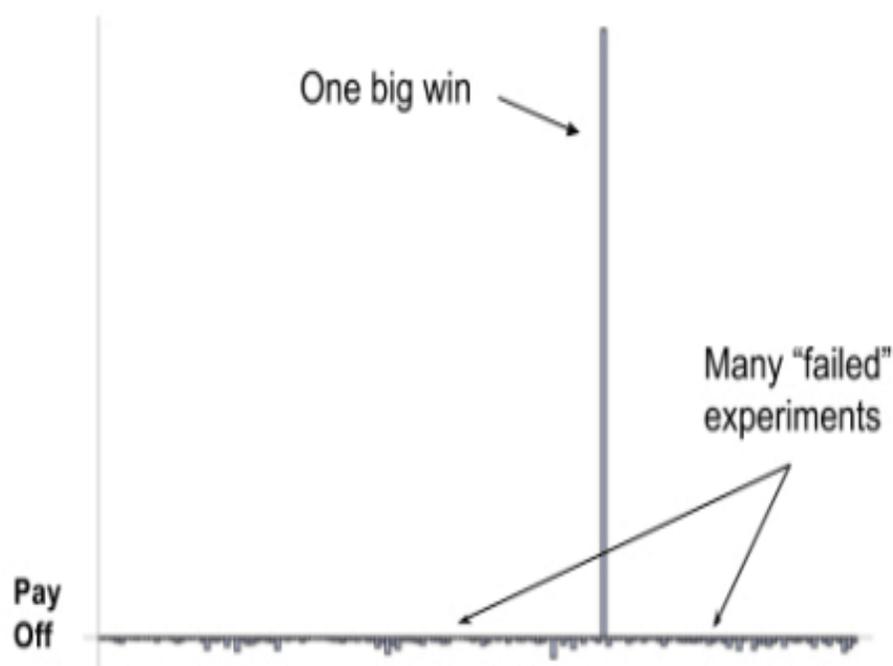
This, more than any other strategy, is why Amazon is so successful

Earlier in the article, I said: if you think about Amazon through the lens of traditional business analysis, you've already lost. With the behemoth, you aren't just competing against a company; you're competing against an economy.

Part of what makes the Economy Pyramid Model so successful is the sheer [quantity of experimentation](#). Amazon's culture of experimentation is so deeply ingrained that Bezos has

repeatedly gone on record saying that Amazon's success is directly correlated with the number of experiments it performs.

What many people miss is that Amazon isn't just experimenting internally with new platforms like Alexa, Kindle, Flex, Marketplaces, and dozens of others. The key here is that each of those platforms then empowers an economy of producers to create millions of experiments. In so doing, Amazon passes the cost of experimentation on to producers, receives income for each experiment, and then doubles down on the blockbusters by creating their own competing brand. It's a brutally effective strategy.



[IMAGE: NASSIM TALEB]

Imagine winning the lottery and building a multibillion blockbuster product only to have the government throw in their weight to compete with you. This, metaphorically, is what every successful brand risks when participating in the Amazon economy. Similar to how Facebook aggregates reader data and sells it to advertisers, Amazon aggregates producer experiment data to launch its own competing products.

In a world that is rapidly changing, the companies that succeed will be those who increase their rate of experimentation faster than the environment changes. And Amazon is a core part of that environment. This principle is known as the Law Of Requisite Variety, and it has been widely studied and been shown to be predictive. An example of the power of the Law Of Requisite Variety in nature is the Poplar tree. In one lifetime, a single tree releases over one billion seeds. Although most of these seeds die, it only needs a few to survive in order to propagate. We also see the power Of The Law Of Requisite Variety with economies. Over the last several hundred years,

decentralized government structures that empower the individual to react to their local environment and experiment have been much more effective and adaptive than planned economies.

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