

Amazon's Toll Road

How the Tech Giant Funds Its Monopoly Empire by Exploiting Small Businesses

By Stacy Mitchell, December 2021

Key Findings

Amazon's dominance of online retail means that small businesses have little choice but to rely on its site to reach consumers. This report finds that Amazon is exploiting its gatekeeper power to pocket a growing cut of the revenue earned by these independent sellers. It's doing this by imposing ever-larger fees on them. These exorbitant fees make it nearly impossible for sellers to sustain a viable business online. Most fail.

Operating an unregulated, monopoly tollbooth that sits between businesses and consumers is wildly lucrative. Amazon's revenue from the tolls it imposes on sellers has soared, growing much faster than every other major revenue stream, including Amazon Web Services (AWS), its vast cloud division. These fees generate huge profits for Amazon, a fact that the tech giant conceals in its financial reports.

In 2014, sellers handed Amazon \$19 of every \$100 in sales they made. Today, it's \$34.

Amazon's ability to extract such steep tolls from businesses selling online is a striking illustration of its monopoly power. These fees also play a crucial role in how Amazon maintains that power. As this report details, Amazon depends on profits from seller fees to fund massive losses in other areas of its operations – losses that serve to entrench and expand its dominance.

Policymakers must act to end Amazon's exploitation and create an open, dynamic, and competitive online market.

To read the full report and see additional graphs, visit:

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Key Finding: Amazon's fees have grown sharply and are harming independent businesses.

- Amazon pockets an average of 34 percent of each sale made by independent businesses on its site. That's up from 30 percent in 2018, and 19 percent in 2014.
- In just two years, Amazon's revenue from seller fees has more than doubled, rising from \$60 billion in 2019, to \$90 billion in 2020, to a projected \$121 billion in 2021. Seller fees have grown much faster than every other major revenue stream at Amazon, including AWS.
- At a Congressional hearing last year, Jeff Bezos testified that Amazon was taking a larger cut of sellers' revenue because sellers had opted to buy more of its services. In fact, the average price sellers pay simply to list and sell a product has risen by 28 percent since 2015.
- Amazon penalizes sellers that offer lower prices on other, less expensive shopping sites. This thwarts competition by ensuring that Amazon's steep fees inflate consumer prices across the web and not just on its own site.
- The crushing weight of these fees makes it almost impossible for sellers to operate a profitable business. Most fail. Yet Amazon faces no risk of running out of sellers. A growing share of those on its U.S. site are based in China.

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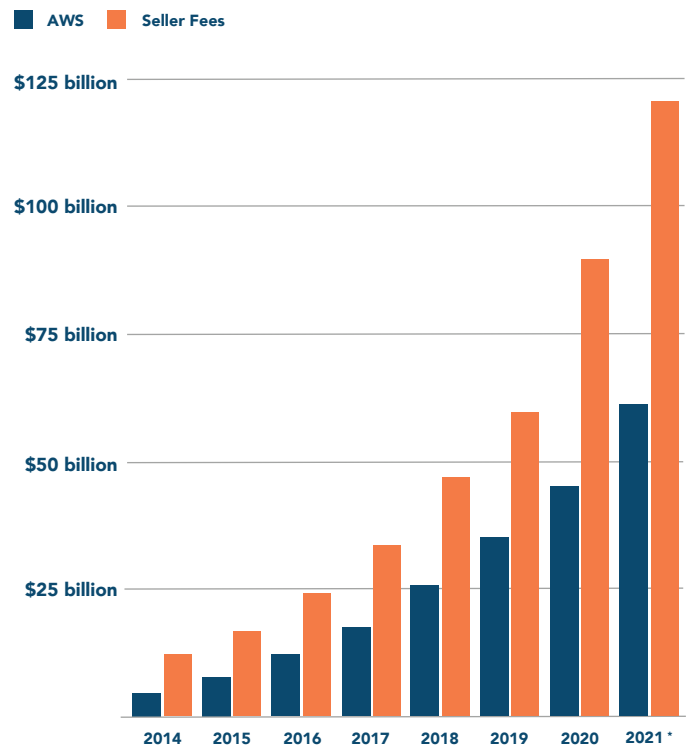
Key Finding: Amazon relies on profits from seller fees to fund its monopolization and expansion strategies.

- Marketplace is almost certainly a bigger source of profit than AWS. Although Amazon's financials conceal the profits it makes from seller fees, we estimate that Amazon may have generated \$24 billion in profits from Marketplace in 2020, compared to \$13.5 billion from AWS.
- Profits from seller fees form the linchpin in Amazon's market domination strategy. For one, these profits allow Amazon to sustain huge losses on Prime. By providing free shipping for an annual fee that doesn't come close to covering the cost, Amazon has induced more than two-thirds of U.S. households to join Prime and made its platform the first, and often only, shopping site they visit.
- Amazon also relies on profits from seller fees to prop up its own retail division, enabling it to offer prices on household staples that are on par with big chains like Walmart. This is essential to blocking competition.
- With revenue from seller fees pouring in over the last two years, Amazon spent heavily to buy other companies and expand its U.S. logistics footprint by 70 percent.

Key Finding: To end Amazon's exploitation of small business, policymakers must focus on structural solutions.

- While regulating Amazon's fees is one option, a more market-oriented solution would be to split up Amazon, separating its major divisions into stand-alone companies. This would remove both the incentive and the ability for Amazon to exploit sellers and use the proceeds to fund its monopoly-maintenance strategies.

Amazon's Revenue from Seller Fees vs. AWS



* Projected revenue for the full year

Notes: Seller fees includes advertising revenue from sellers. Sources: Amazon's 10-K filings; eMarketer.

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