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AWS is commonly believed to generate most of Amazon’s profits. In fact, Amazon almost certainly takes in far more profit from Marketplace than from AWS.

Why isn’t this widely known? Because Amazon conceals how much profit it makes from Marketplace. 1/

<https://t.co/iO2XEzNAz6>

Amazon’s financial reports break out profits for AWS separately, but lump together the rest of its divisions, disclosing only combined profit figures.

This allows Amazon to offset its huge profits from seller fees with huge losses on Prime and its own Retail division. 2/

<https://t.co/o5fUnMU8yc>

	YEAR ENDED DECEMBER 31,	
	2019	2020
Operating Income (Loss):		
North America	\$ 7,033	\$ 8,651
International	(1,693)	717
AWS	9,201	13,531
Consolidated	\$ 14,541	\$ 22,899

Last year, the House Judiciary Committee’s antitrust subcommittee, as part of its Big Tech investigation, asked Amazon to disclose the expenses and profits for Marketplace and Prime.

Amazon refused. 3/

<https://t.co/CFEvmOxBoo>

Why doesn’t Amazon want people to know how profitable Marketplace is? After all, it crows about AWS.

One reason is that raking in billions in profits off the backs of a captive base of small businesses struggling under the weight of Amazon’s high costs is not a good look. 4/

Another reason is that disclosing profits from Marketplace would require Amazon to also reveal exactly how many billions of dollars it deliberately loses on Prime and its own retail sales.

These losses are a form of predatory pricing – a way to monopolize the market. 5/

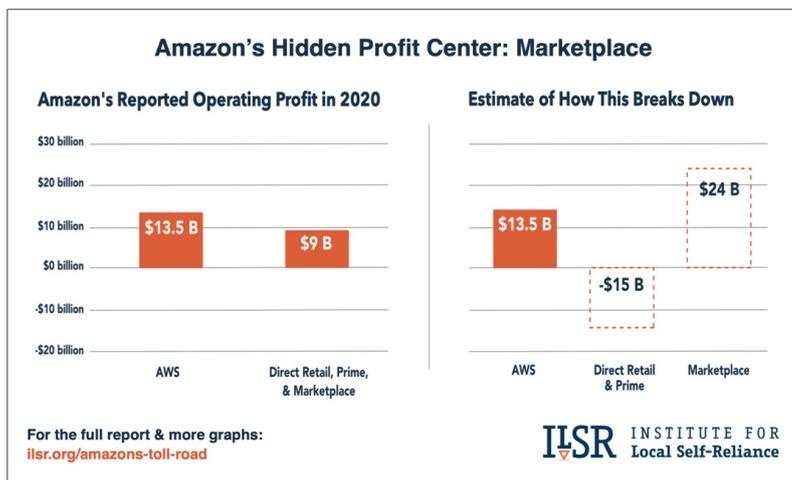
By selling “free” shipping well below cost, Amazon has induced 70% of households to join Prime and made its platform the first, and often only, shopping site they visit. 6/

Amazon also takes losses on its own retail sales. This enables it to sell household staples, like diapers & laundry detergent, at prices that are competitive with Walmart.

This is essential to keeping big retailers from challenging Amazon online. 7/

How does Amazon pay for these losses? It extracts huge rents from third-party sellers.

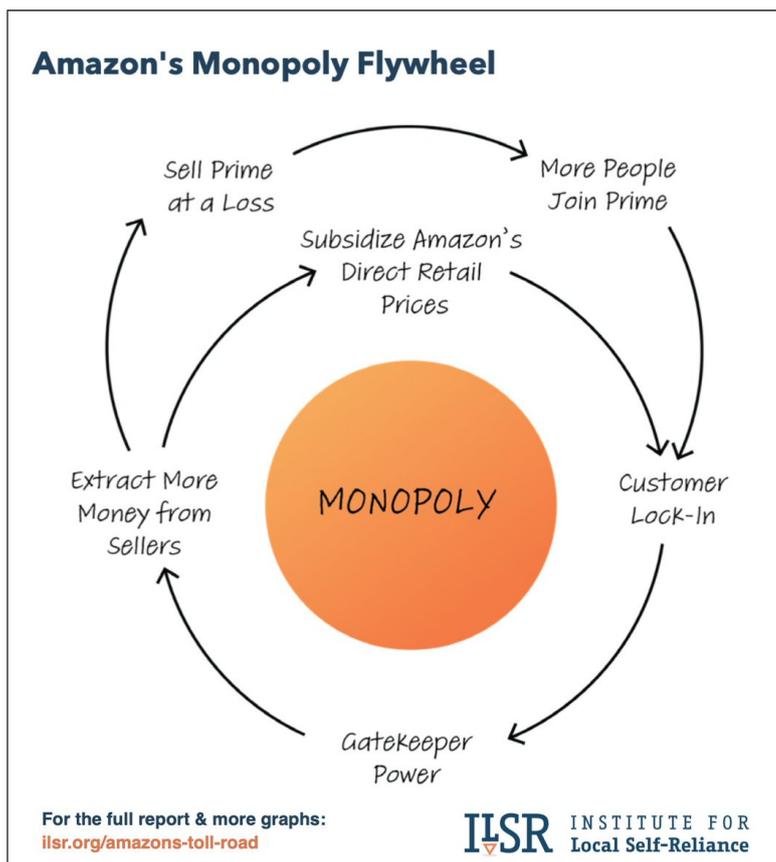
Our estimate is that Amazon had roughly \$24 billion in profit from seller fees in 2020, which offset about \$15 billion in losses on Prime/Direct Retail. 8/ <https://t.co/pF2zhsBuQ7>



This is only a rough estimate, drawing on the work of other analysts. But given that seller fees generate twice the revenue of AWS, and most of these fees (referral & advertising) come with no marginal costs, it's impossible to see how Marketplace isn't bigger than AWS. 9/

These profits and losses spin a monopoly flywheel that keeps gaining more momentum and pulling more and more of the economy under Amazon's control.

It's this perpetual motion machine that's at the heart of Amazon's durable and growing market power. 10/
<https://t.co/HsGh4DqzMo>



What's the policy solution? Because Amazon's monopolization strategy, and its power over sellers, depends on the integration of its various divisions, lawmakers should undo that integration.

They should split up Amazon's Marketplace, Retail division, AWS, and logistics. 11/
 We're backing legislation in Congress to do that.

In the meantime, Congress should make Amazon disclose its profits from Marketplace with a subpoena. Or the SEC should do it. 12/

Read more in our new report: <https://t.co/iO2XEzNAz6> 13/13