Eventually Amazon Will Fail – and That’s a Good Thing

The Federal Trade Commission has cleared the merger between Amazon and Whole Foods, sparking yet more fears that the retail giant is becoming too big. Even as commercial enterprises adjust, politicians and bureaucrats in America, Europe, and elsewhere are sounding the alarm about how big companies like Amazon and Google are shutting out smaller competitors and hogging the marketplace. But their worries are misplaced: The market will see to Amazon just as Amazon saw to its predecessors.

If a company delivers huge amounts of value to consumers at a price that suits them and revolutionizes the way we do business, government can see it as a problem that’s got to be stopped. What politicians don’t seem to grasp is that today’s big companies were yesterday’s small companies that upended yesterday’s big companies.

Amazon, Google, and Netflix are now big companies that all started by creating new markets and new opportunities that proved the undoing of the companies and services that came before. All three began as start-ups, not offshoots from a dominant market company. Google was founded in a garage by an entrepreneur maxing out his credit cards. Now we can hardly remember a time before “Google” was a verb.

In fact, dominant market actors rarely last for long. Incredible as it may seem at this very moment, Google will fade into memory someday, and the firms that will arise to supplant it may not have even been founded yet. New industries replace old ones with new products or services we find more valuable. Even the most innovative companies find it difficult to stay in the race when confronted by a truly innovative competitor. It’s what Harvard business professor Clayton

Christensen calls the “innovator’s dilemma” – it is much easier to innovate outside the confines of large companies. Amazon is a prime example.

First, an old industry of small bookstores with eclectic offerings was largely replaced in the 1990s by “big box” bookstores like Borders, where you could get the latest novel by your favorite author and browse through a huge inventory of other books and merchandise. These bookshops were so dominant that the romantic comedy *You’ve Got Mail*, about the “problem” of big box stores, was a big hit.

But then, Amazon, a small Internet startup company, started selling books online, soon undercutting the costs of the big box stores and delivering books straight to your door. You couldn’t browse the books themselves, but the online company offered useful information in the form of customer reviews and book suggestions based on your browsing and recent purchases. As it grew, Amazon applied the same business model to other goods besides books and created new markets in online book publishing and web services.

Now, Amazon is a world leader, having long since out-competed Borders into oblivion.

Cue the biggest threat of all: political predators. Recently, Amazon, like Google, drew political fire and worries over market dominance when it moved to acquire Whole Foods.

Another startup-to-success story is entertainment company Netflix. But, wait – remember Blockbuster? The video rental store chain was once so prominent that The Simpsons joked that a lost child at a concert would become the company’s property. Yet it was bankrupted by Netflix, which is now producing its own original content and competing directly with established TV networks. As is Amazon, of course.

Clearly, we don’t need government to constrain large companies. The markets and innovation will do that job just fine. In the meantime, Amazon cut prices at Whole Foods almost immediately. That’s the market working for consumers.

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This article was originally published on FEE.org. Read the original article.

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