Will Amazon Eat The World Or Will It Be Eaten?

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Zack Kantar's recent essay on TechCrunch, Why Amazon Is Eating The World, got a lot of play. His analysis that Amazon's "commanding lead" was only going to get bigger seemed to fascinate -- and concern -- many people, including me. I am a big fan of Amazon (NASDAQ: AMZN) and was inclined to agree with his prediction, "I'm not sure we'll see a mass-market retailer compete successfully against Amazon within my lifetime." But I wondered if his the-sky-is-falling opinion was really warranted. So I asked my colleague, former analyst and Amazon logistics manager Brittain Ladd, for his POV. Kantar and Ladd provide an insightful point and counter point on the future of Amazon.

Experts disagree on if Amazon will remain unchallenged by competitors. Credit: JOHN MACDOUGALL/AFP/Getty Images

Ladd led Amazon's customer-centric supply chain, logistics, and transportation solutions and most recently headed up the company's worldwide expansion of Amazon Fresh and Pantry Operations. Before that, he worked in the logistics practices of Deloitte and Capgemini. So, he knows a thing or two about retail and global business. Kanter is the founder of several start-ups and has been described as an entrepreneur "building the Zappos of the auto parts industry." His first company sold to Amazon both as a vendor and as a “Marketplace seller” and says that Amazon as a company has become "something of a personal obsession" to him. His perspective seems thoughtful, informed, and credible. He writes, "Amazon is uncatchable," while Ladd isn't so sure.

On Walmart. NYSE: WMT Kanter says that it's feasible that Walmart can replicate many of Amazon's distribution and sales programs like its Amazon Prime's 2-Day delivery and cashless Amazon Go stores and he concedes that "Walmart has a proven ability to build out distribution capacity and they should be able to manage reconfiguring their network for e-commerce fulfillment without too much difficulty." But he declares, "Amazon is the most defensible company on earth" in part because it builds every part of its business with a "with a service-oriented architecture." He points to the Fulfillment By Amazon (FBA) program and says it will be "extraordinarily difficult for another retailer to replicate" -- not only because of the technological and organizational complexity involved, but also it is a money-loser and only Amazon is willing to stomach such huge losses for so long.

Ladd disagrees, saying, "Walmart is not going to try and compete against Amazon in all areas, for example, FBA. Instead, I believe Walmart will focus on food and technology." He goes on to say, "It would be very unwise to think Walmart can't close the gap with Amazon. I have no doubt that Walmart will leverage their massive ecosystem of stores, supercenters, e-commerce, and increased willingness to make acquisitions to close the gap with Amazon faster than anyone anticipates."

On Brands. Kanter also calls out FBA as the reason why brands will cede their e-commerce operations to Amazon. Amazon, he says, makes it very attractive to do so by offering distribution services at " incredibly competitive" rates and allowing them to use Amazon's multi-channel fulfillment option to ship non-Amazon orders to the seller's customers.

Ladd has a different point of view. "It is becoming incredibly easy for companies to create their own e-commerce capabilities," he asserts. "I believe, in an effort for companies to achieve greater command and control over pricing, brand building, and customer intimacy, we will see a significant increase in manufacturers by-passing retailers altogether and selling their products direct to consumers. "Amazon, by increasing penetration levels of e-commerce," he explains, "has actually made it easier for manufacturers to by-pass Amazon and sell direct to customers. In addition, I argued that due to the increase in the number of companies that can perform last mile delivery services, last mile delivery is becoming less and less a constraint."

On Amazon Web Services (AWS). Kanter praises Amazon for "future-proofing" itself by building its own technology infrastructure in AWS. He says that, in the 10+ years since AWS's debut, Amazon has been "systematically rebuilding each of its internal tools as an externally consumable service. A recent example is AWS's Amazon Connect -- a self-service, cloud-based contact center platform." And it is this "long tail of external service availability" that is "nearly impossible" for any competitor to replicate.

Interestingly, Ladd doesn't mention AWS once in his message to me. His silence may be a result of his logistics orientation -- he may consider what Amazon is doing in the cloud less important than what it's doing in the physical world. Or perhaps in his view, AWS may not be the juggernaut that Kanter believes it is. The exact opposite is seen in their perspectives on Amazon's international business.

On China And India. Ladd focuses his POV on Chinese and Indian threats to Amazon. "Jack Ma of Alibaba NYSE: BABA is a master of applying guerilla warfare tactics to business," he says. "Amazon learned the hard way in China how formidable Alibaba is...Jack Ma will do everything that he can to force Amazon to have to invest even more in India (bleed Amazon) to be successful." His confidence in Ma is clear. "When Alibaba does enter India," he writes, "they will do so with every intent to win. If Alibaba can reverse Amazon's success, they'll control the largest markets with the most growth potential. If this occurs, Amazon will have limited options for growth."

Ladd also sees India as a market where Amazon is vulnerable to Walmart. He says we shouldn't overlook Walmart's relationship to JD.Com NASDAQ: JD, a Chinese e-commerce company. Walmart could increase its existing 5% equity stake in the company. "A combined JD.Com and Walmart operating in India," Ladd believes, "could deliver billions in growth for both companies." He also thinks Walmart could also choose to operate independently in India. "Regardless of the strategy, India remains a significant opportunity for Walmart to generate billions" -- and stage a significant challenge to Amazon.

In his POV, Kanter doesn't once mention any global threat to Amazon. Like Ladd on AWS, it may be that Kanter just doesn't know international markets as well as he does the U.S. Or his omission of these points could reflect his belief that the U.S., Amazon's largest market, is where Amazon's fate will be sealed.

The Bottom Line. Ladd agrees with Kanter on Amazon's likely continued dominance in the short term. He concedes, "Amazon has proved that they have learned the lessons of companies who failed to retain a corporate mindset and culture: In order to remain on top, they have to retain a laser-like focus on customers vs. chasing after competitors." Where his opinion diverges from Kanter's is in their predictions for the long term.

Kanter calls Amazon "uncatchable" and concludes, "Amazon will only be brought down by an anti-trust case (though that’s a long way off, given that they only have a small percentage of total retail volume today) or a paradigm shift in how we consume physical products." Ladd is less bullish.

He predicts something he calls the 'Schmeling Effect' will more than likely occur by 2020. He explains, "The Schmeling Effect comes from former German Heavyweight boxer Max Schmeling who, when interviewed about having to fight fellow heavyweight boxer Joe Louis, a fighter considered unbeatable, Max stated, 'I see something.' What Max saw were flaws in Joe's fighting style that no one else did. Although a massive underdog, Max knocked out the supposed invincible Joe Louis in the 12th round of their fight. This is what I believe will happen to Amazon -- someone, somewhere, will 'see something' that uncovers a flaw/weakness in Amazon's fighting style and they'll begin to land punches."

What do you think? Do you, like Kanter, believe Amazon's dominance will continue ad infinitum? Or do Ladd's bets on the competition resonate more with you? Or do you have an entirely different point of view? Please use the comments to add your voice to this riveting conversation.

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