

THE AMAZON EFFECT

The picture of Jeff Bezos sitting in his garage in 1994 when Amazon first started has been circulating in the news lately. This picture undoubtedly surfaced due to Bezos' recent surpassing of Bill Gates as the wealthiest person in the world. It represents the struggle that you must go through in life – you start at the bottom and work your way to the top. Bezos story starts in his garage and has escalated to a net worth of \$121 billion. With absolute dominance in E-Commerce and development on the brick and mortar front with their recent Whole Foods acquisition, it seems to be only a matter of time before Amazon starts wanting more. The rumors revolving around the *Bank of Amazon* were inevitable, but they are finally here.

Bezos Rise to Fame

Jeff Bezos was born Jeff Jorgenson, son of a teenage mother in 1964. At 4 years old, his mother married a Cuban immigrant, Mike Bezos. His young mother and immigrant step-father seemed to be perfect motivational factors in a young boy's life – as Jeff succeeded at everything he did from an early age.

Bezos graduated valedictorian of his high school class, while simultaneously starting his first business – Dream Institute – an education summer camp for middle-school students.¹ After high school, Bezos continued his education at Princeton University, where he graduated Summa Cum Laude with a degree in computer science and electrical engineering.

¹ <https://www.biography.com/people/jeff-bezos-9542209>.

Although his accolades from a prestigious university did not revolve around finance, Bezos found himself immediately immersed in Wall Street upon graduation. It was there, while working with an investment firm, D.E. Shaw, where Bezos became the company's youngest Vice President at 26 years old. Seemingly unstoppable, Bezos was not going to let his legacy be determined by someone else's company. At the age of 30, he left Wall Street and returned to his garage, where Amazon.com was ultimately launched.²

What is the Amazon Effect?

It is not a new phenomenon for companies outside of the financial sector to try and break in. For those that remember the embryonic stages of Barnett Bank's mini full-service branches located inside of Publix stores, to the Walmart Concept of banks opening in their supercenters, we have now arrived at the Amazon Effect. With a larger platform and better foundation, this might be the one that successfully breaks the barrier.

The Amazon Effect is the overwhelming deterioration of any market that Amazon decides to enter. Amazon first started by selling books online. Their rapid success caused Barnes & Noble's sales, stock price, and capital to dwindle almost immediately. What was once the largest bookstore has seen a continuous decrease in year to year sales since 2013.³ This was the beginning of the Amazon Effect.

When Amazon opened its inventory to carry more than just books, retail stores started to feel the immediate pressure. Seventy-seven percent (77%) of retailers have seen

² *Id.*

³ <http://fortune.com/2017/09/07/barnes-noble-books/>

Amazon have an effect on their sales.⁴ Larger retailers have closed multiple stores throughout the country or have had to declare bankruptcy.⁵ Even its new venture into the grocery industry with Amazon's acquisition of Whole Foods and simultaneous price slashing has caused Winn-Dixie and Tops Market to announce plans for bankruptcy this month.⁶

So what exactly is the Amazon effect? Just recently, when Amazon announced that it will start a non-profit company to help lower health care costs for its employees, health-care stocks dropped as much as 10%.⁷ The Amazon Effect is simply that – being so large and entangled with growth and success that by simply announcing an idea, an entire industry market value decreases by 10% in one day due to panic.

Bank of Amazon

In a recent survey of more than 133,000 banking costumers spread across 22 countries, consumers reported that they trust Amazon with their finances nearly as much as their banking providers.⁸ Almost 75% of Millennials reported that they would be more excited for financial offerings from Amazon than from their bank.⁹ Millennials, being the future of the economy, know nothing other than simple, fast, online and convenient. Millennials know Amazon.

⁴ <https://www.pymnts.com/news/retail/2017/the-amazon-effect-how-retailers-are-impacted/>.

⁵ *Id.*

⁶ <https://www.foxbusiness.com/features/amazon-effect-felt-as-two-grocery-chains-on-verge-of-bankruptcy>.

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<https://www.forbes.com/sites/johannabennett/2018/01/30/be-afraid-healthcare-feels-the-amazon-effect/#a16b1972d317>.

⁸ <https://thefinancialbrand.com/69436/amazon-bank/>.

⁹ *Id.*

Amazon has already established itself in the financial industry for their credit card offerings and small business loans. Since 2011, Amazons lending services have surpassed \$3 Billion.¹⁰ After doubling their lending services in 2016, Amazon only saw a slight increase in 2017.¹¹ With Amazon never being satisfied with slight increases, in February of 2018, Amazon announced its partnership with Bank of America to expand their lending services. This partnership will give them access to more capital while reducing their risk.¹²

Though the partnership only involves lending services, rumors are circulating that this is only the first step of many to follow in the financial industry. There are also reports in India and Mexico that Amazon is developing their reputation in the financial industry even further by offering payment services and by investing in FinTech start-ups.¹³ According to an Infosys Finacle survey of 300 bankers, almost 50% believe Amazon and other large tech companies to be a significant threat.¹⁴ Amazon's relationships with their customers, the customer loyalty, and the data that they have collected allow them to prevail in just about any industry they wish to join. If these early signs are any indication that the *Bank of Amazon* may someday be a reality, those in the industry would be wise to pay attention.

Amazon Effect on Community Banks

The Amazon Effect seems to be a nightmare for those who participate in a market in

¹⁰ *Id.*

¹¹ <https://www.cnn.com/2018/02/14/amazon-and-bank-of-america-partner-for-lending-program-but-growth-has-stalled.html>.

¹² *Id.*

¹³ <https://timesofindia.indiatimes.com/business/india-business/india-and-mexico-get-an-early-taste-of-the-bank-of-amazon/articleshow/62662849.cms>.

¹⁴ *Id.*

which they serve. However, that may not always be the case. While large department stores and retailers such as Barnes & Noble and Sears continue to see a decrease in their sales and stock price, Amazon does not seem to threaten the smaller community based retailers.

The consumers who shop at the Mom and Pop locally owned stores, or who bank with community banks, are doing so for one reason – they love the community feel and individual attention that they receive when they walk through the doors or enter into a transaction. At Amazon, you are at arms length the entire process; an anonymous merchant receives your money and sends your item to your door using a third party shipper. It lacks personal touch and affection. In contrast, when you walk into a community bank, you are warmly welcomed (sometimes even by name) and offered a cup of coffee while you talk with the employees who understand your needs because they are part of your community.

While the larger financial institutions should be worried because their transactions with consumers have become digitized and less personal, similar in fashion to Amazon, community banks are based on developing loyal and lasting relationships. It may be easy to switch to a new and exciting financial institution when the only banking you do is online with a multi-billion dollar bank that has no connections to you or your community. However, when you make hand delivered deposits each week, or see those local banks sponsor your kids little league games or local charity event, it is so much more than just a financial product or service – it is a member of the community.

The *Bank of Amazon* may cause a large wake in the financial industry, but local banks, by practicing what they preach, can

be very successful through relationship building in their communities. Without relationships and without community, we all become a fungible commodity.

For those looking to start a new, or *de novo*, community bank, click [here](#) to find out why it is the perfect time.



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