Forbes

Why Amazon Outhustles Comcast: A Tale Of Two Monopolies And Implications For Their Customers

Rajshree Agarwal

September 15, 2020

School started right on schedule in fall 2020 despite Covid-19, but millions of children went to their laptops rather than bus stops. The shift to virtual classrooms has made reliable wifi all the more crucial at a time when so many people are teleworking.

My family understood the need for speed when we bought a house this summer in rural Maryland. Virtual work and classes meant that stable internet access was a critical priority. Unfortunately, we did not have many options for providers. Our choices were Comcast or nothing.

Getting started was brutal. Service that was supposed to be ready on move-in day got postponed—again and again—with promises of "next day" fixes that went on for seven weeks. Instead of working from home, we found ourselves stuck in a McDonald's parking lot clinging to the free signal or relying on our neighbors' benevolence by camping on their back porch when they were away.

During that span, my husband and I became experts at navigating the Comcast phone menu. The hack that worked best for us was calling the sales number rather than technical support. Reaching the right person still took at least 20 minutes each time, but Comcast lowers the barriers when it thinks it might have a potential new customer on the line.

Each time we broke through the automated resistance, staff members were friendly but limited in how they could help due to the labyrinth of red tape. To make matters worse, we never could speak to the same person twice, which killed followthrough and accountability.

Ultimately, we encountered processes and systems set up by a company not concerned about rivals coming in and taking their business. Why scramble to be faster, cheaper and better when you have a captive audience?

Many "monopolies" struggle with the same lethargy, but not all. Amazon, for example, has cornered the market on home delivery of products—another critical priority under Covid-19—without sacrificing quality service. The company has had no trouble meeting our needs in rural Maryland. It delivers consistently with overnight and same-day service. And when we need to return a product, the process is simple with no questions asked.

The different experiences relate to the way monopolies form. Two major categories exist. Companies in the first group tend to move slow, while companies in the second group tend to stay nimble. The key is the role of the government in creating barriers to entry.

Government-Created “Natural Monopolies”

Companies like Comcast do not gain monopoly status by outhustling the competition. Instead, they create agreements with local governments that bar other providers from entering the area. The rationale for such economic protectionism goes back to AT&T, which dominated U.S. telecommunications for most of the 20th century.

Economic law dictates that consumer prices come down and quality goes up with competition. But AT&T executives successfully lobbied for the reverse. In the face of new entrants making inroads in various regions, they convinced regulators that the best way to serve the public was to block duplication of effort. Why build new trenches or lay new lines when perfectly good ones already existed?

Health care, mass transit and utility executives use similar claims to gain special access to government favors. Leaders in all of these industries cite high startup costs, which they say justify the creation of “natural monopolies” to achieve the necessary economies of scale.

That’s how the argument goes, which rests on the assumption that supply and demand is static, and not affected by innovation over time. But case after case shows that when master planners use their political power to strip away market pressures associated with competition, they achieve the opposite of the stated intentions of creating access and affordability. Research by Adam Thierer at George Mason University highlights how this happened with AT&T.

Companies that rely on government protection quickly lose the incentive to innovate. The first casualty is customer connection, a key component of organizational soul. Instead of worrying more about you and me, these companies focus on keeping their government partners happy in a system that engenders lobbying and cronyism.

The AT&T racket was ultimately broken up in 1982. When it comes to “natural monopolies,” the government giveth, and the government taketh away. But the day of reckoning has not yet arrived for Comcast, which still enjoys perks such as exclusive rights-of-way on public and private land.

Government regulators not only enable this in the first place, but also deliberately mask the extent of the problem by overstating access in rural and marginalized communities. So, Comcast can rest in knowing people have no option but to wait.

Growing Through Continuous Improvement

Other monopolies carve their niches without government erected barriers, which requires them to build strong customer connections. What else do they have to prop them up when things get tough? Often these companies circumvent entire industries—inventing new ways of doing things that nobody previously considered—or they leapfrog the competition by improving existing methods.

Amazon combined both techniques. When the company started selling books online in 1995, nobody saw ecommerce as a serious threat to bricks-and-mortar retail. Customers wanted the tactile experience of walking into a store, testing a product and taking it home immediately.

Shoppers did not want to wait six to eight weeks. Even if they had the patience, they worried about sharing their credit card information on the internet. They also worried about return policies.

Amazon solved these problems by reinventing the consumer experience. Rather than relying on government handouts, the company relied on innovation to outcompete Walmart and other retail heavyweights. Founders like Jeff Bezos were pioneers.

History provides ample examples of reconfiguration of business models. In consumer retail, probably the most famous Amazon precursor was the Sears Roebuck Catalogue, which started circulating in 1897. For the next several decades, U.S. families would sit at their kitchen tables, flip the pages and dream—not unlike the people who browse on their smartphones in 2020.

The only things missing were speed, security and crowdsourced reviews. These are the things Amazon added by capitalizing on cutting edge technologies. But just because the company has found success does not mean it can relax. Even if there is no current competitor, the potential threat of entry can keep them from growing complacent.

Many brands have maintained monopoly status for periods of time, only to get outcompeted later by newcomers. Recent examples include MySpace, Blockbuster, Kodak and BlackBerry. Even Walmart, the company that caught Sears from behind, has had to pivot to keep pace with Amazon.

The key for survival is continuous improvement. Companies lose sight of this when they start using regulation as a substitute for innovation. As I discuss in a previous column, Amazon may be moving in this dangerous direction, given its second headquarters in Washington, D.C. If true, Amazon may well lose its Day One mentality, which is all about obsessing over products and services that are faster, cheaper or better.

Regulators claim their intervention helps improve the consumer experience, but the public should be wary of such claims. Policy analysis by Ryan Bourne at the Cato Institute debunks the notion that Big Tech needs a nanny.

Despite all the good intentions, master planning consistently falls short as a substitute for competition. Some people blame the failure on out-of-control capitalism. They say some firms are simply too big to care, but size is not the problem. Many large companies do a good job anticipating consumer needs and responding to them, increasing access and affordability along the way.

When it comes to monopolies, not all are created equal. Some are manufactured and propped up by the government, while others are held together by innovation and commitment to providing customer value.

As the tale of the two monopolies shows, the distinction makes all the difference for universal and affordable access to customers as Covid-19 creates an unprecedented need for teleworking and home deliveries.