



The Solari Report

August 3, 2017

Solari Food Series **Amazon Buys Whole Foods** **With** **Harry Blazer**



An Urban Homestead





Solari Food Series

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C. Austin Fitts: Ladies and gentlemen, it's a pleasure to welcome you to The Solari Report for the next in the Food Series. Normally Harry Blazer is the host, however, today I am going to host and interview Harry.

As you may well know, Harry built the largest fresh food market in the country and sold it to Whole Foods. He has been a consultant and fresh food expert to grocers around the world. There is no one more competent to talk about the Amazon-Whole Foods deal, outside of Amazon and Whole Foods, who has inside information.

Harry, it's a pleasure to welcome you. How does it feel to have your former company now sold to Amazon?

Harry Blazer: Well, it was a portion of the former company.

I guess in one sense it's a vindication. In another sense, we'll see how these guys bastardize it.



C. Austin Fitts: Let's step back. You and I have been talking during the last ten years as we've watched tremendous change happen in the US and global grocery markets. Let's only focus on the US now. Take us back to what has happened within the last ten years and I know that the change has been remarkable during that time. Obviously we're going into a bigger change, but take us back to the invasion of Costco and Walmart and what has been happening in the US grocery markets.

Harry Blazer: People can actually get very good information on this by going to Wikipedia. Query 'Walmart' and query 'Costco' and you will get all the history that you may want on both of those companies. It is significant to look at because Walmart is the number one retailer in the world, and Costco is the number two retailer in the world.

That's if you don't count Alibaba, which is the number one retailer in terms of sales – which we also can talk about.

Walmart started in the 1960's and my father was actually the second person in the discount store business before all those guys. That entire industry started in Rhode Island. As a young boy, I could see the power of what I call 'disintermediation' – getting rid of the middlemen.

My father actually had a very significant case against Johnson's baby powder in the 1950's or the 1960's that outlawed key stoning, which was the requirement by the manufacturer to sell their goods at double the cost. This protected the department store industry. Once that was removed, that basically opened up the discounting store industry which has been the major retail trend and continues to be getting rid of the middleman and reducing costs to get costs out of the distribution system.



Walmart, Kmart, and all those people have had their run for 50+ years, and the Waltons are the wealthiest family combined that shows up on the Fortune 500 list. The people with the real money don't show up on the Fortune 500.

Combined, they have the greatest wealth and have the run of that industry. It's the most powerful wealth-building industry during the last 50 years. Now the digital people have taken over in the digital marketplace, combining with brick-and-mortar because they basically want to control all channels.

C. Austin Fitts: Walmart did retailing before it got into food relatively recently. I remember when I first went here, I don't think that they even had groceries.

Harry Blazer: That is correct. Costco was the same way. Now Costco is another phenomenon, along with Sam's Club and so on, but the person who really started that was Sol Price. He came to my stores with a crew of people to look at what we were doing. He was actually talking about me making bread for him because we had the most unique bread-making capability of any supermarket at the time.

Sol eventually sold to Costco. That became PriceCostco, but then it later became Costco. That's where you paid a membership and received prices like a wholesaler would get.

You couldn't buy a unit like you could in a supermarket; you would have to buy in bigger bulk sizes, but it opened up another example of discounting.



So Costco runs their business on a break-even operational basis. “I’m going to charge enough so that I can cover all the expenses involved in running my business, and then I’m going to charge you a membership fee,” which essentially accounts for their profit.

So one of the key things to look at is that department stores are running 50% gross margins, the discount and supermarket industries are running roughly 22-25% gross margins. Costco is running 14% (or close to 16% if you put their membership fees on), and Amazon is probably running at 10%, as are Aldi and Lidl.

C. Austin Fitts: Those are the German discounters who are moving into the United States, right?

Harry Blazer: Yes, and Lidl is one of the largest food retailers in the world. They have 10,000 stores worldwide. I was in the UK working with Morrisons when these people came in and totally swept up the market.

I’m coming around to answer your question. Costco’s meteoric growth came after they added food. Walmart’s supercenter meteoric growth came after they added food. Aldi and Lidl’s growth – but Aldi in particular, especially in the UK that I witnessed – happened once they started carrying food, and also when they all started to focus on fresh.

So you end up with Costco being the largest retailer of organic foods. They are the largest retailer of a number of other categories, too. I think one of them might even be fresh food.



Food has made a big difference in terms of the revenues and profitability for the major brick-and-mortar retail people over the last 20+ years.

C. Austin Fitts: Right, and that process of them moving in – Walmart and Costco – wiped out an enormous number of grocery chains. My recollection is that a number of chains have been put out of business by this wave of Walmart and Costco moving in.

Harry Blazer: We're going to have some links and some additions – as you always do – which are very helpful. I'm also going to include a report from the Institute for Local Self-Reliance. These people have actually done quite a detailed and interesting study on Amazon and the effect of Amazon, which goes to exactly what you are talking about.

If you think that Walmart has been credited in many places with wiping out the downtown business sections in many towns, Amazon has the potential to totally change the retailing infrastructure across the country.

If you take a second and look at Alibaba, you should also go to Wikipedia and look at these people. Look at the list of companies that they own, the acquisitions that they make, how frequent they make it, and how many different channels they are into from communications to producing movies. Almost anything that you can think of, these people are starting to get their hands in.



Alibaba is two or three times the size of Amazon now with online sales, and they have two or three major channels; one is business-to-business, which is what Alibaba pretty much is. You can only buy in semi-large quantities, but there is this other thing called Taobao that is dominating Southeast Asia and China and that entire area, which is the equivalent of Amazon. It's business-to-consumer. It's all in Chinese; I haven't been able to find an English version and that section of their business is bigger than Amazon.

Interestingly enough, I know some people in Fidelity Investments, which is fairly well known in the United States, and they were one of the first investors in Alibaba years ago. I can only imagine the couple of million dollars or whatever that it was worth because Alibaba recently had one of the most successful IPOs – I think it was the largest IPO ever in the history of the US exchanges. They went in at \$22 billion and it ended up being a \$25 billion IPO.

Interestingly enough, because you were recently in Hong Kong, from what I understand Hong Kong would not allow them under law to have two classes of stock. [By the way, when I went public I had two classes of stock, but it is very rare now.] So because they wanted to maintain that AB share and that control, they did their IPO launch in the United States.

Food is becoming a very, very critical part of the success of brick-and-mortar retailers for the last 20 years, and now the online business.



C. Austin Fitts: It's interesting because on The Solari Report we talk much about Global 2.0 to Global 3.0 from an industrial economy to a network economy. Of course, Amazon has been one of the leaders of building, what I would describe as Global 3.0. What is interesting now with the acquisition of Whole Foods and the warehouses that they've been building across the country, Amazon is moving out of the digital space and into brick-and-mortar; they are integrating.

Harry Blazer: I wouldn't say that they are moving out of it, but integration is happening and that is the key. There is an integration happening, and one of the ways that it's been phrased is there have been many articles written about this because it is major. They ask: Is Amazon going to become Walmart before Walmart is able to become Amazon with their acquisition of Jet.com and so on?

That is the key. What is the integration and the new world of retailing between brick-and-mortar and digital going to look like? It's going to be quite fascinating.

C. Austin Fitts: Before we go too far, I want to talk about what is Amazon. We've been talking about Amazon as if it were a retailing company.

When Alibaba did his IPO, one of the spins in the marketplace was that Alibaba generates a profit and Alibaba doesn't. Well, what happened to help bolster Amazon at that time was they acquired a \$600 million a year contract from the CIA to provide cloud services, which the CIA is now using to integrate cloud services for all 17 US intelligence agencies.



You know my concept is the data beast. At the same time that they did the deal with the CIA for the \$600 million contract, they turned around and bought Buffett out of the *Washington Post* – or Bezos bought Buffett out.

Amazon is trading at a PE now of 188 times and it's an unprecedented IP. You can imagine how much that contract from the government generated in terms of stock market value. So turning around and buying the *Washington Post* was a fairly minor commission on that stock market increase.

So there is a really profound question in my mind as to who is Amazon. Is Amazon Jeff Bezos and his investors? Or is Amazon the US intelligence agencies and the deep state? And what is the integration of data between Amazon and the NSA and the US intelligence community?

Harry Blazer: Let me read a little from this ILSR. This will give us a very good picture:

Behind the packages on the doorstep, and behind the inviting interface and seamless service that has consistently put the company at the top of corporate reputation rankings, Amazon has quietly positioned itself at the center of a growing share of our daily activities and transactions, extending its tentacles across our economy, and with it, our lives.



By the way, this is an interesting fact: Walmart has stores within ten miles of 90% of where Americans shop while Whole Foods has stores within ten miles of 90% of Prime Membership owners.

C. Austin Fitts: I think that is an amazingly important factoid.

Harry Blazer: So there are the two 90%ers who are going head to head.

ILSR continues:

Today, half of all U.S. households are subscribed to the membership program Amazon Prime, half of all online shopping searches start directly on Amazon, and Amazon captures nearly one in every two dollars that Americans spend online. Amazon sells more books, toys, and by next year, apparel and consumer electronics than any retailer online or off, and is investing heavily in its grocery business.

As a retailer, its market power now rivals or exceeds that of Walmart, and it stands only to grow: Within five years, one-fifth of the U.S.'s \$3.6 trillion retail market will have shifted online, and Amazon is on track to capture two-thirds of that share.

But describing Amazon's reach in the retail sector describes only one of the company's tentacles. Amazon is far more than a big, aggressive retailer.



The company is a novel kind of power, a power that, as *New Yorker* writer George Packer has described, is, “Something new in the history of American business.”

As a matter of fact, one well-known commentator said that it is a \$3.6 trillion dollar business hiding something.

As we show in this report, Amazon increasingly controls the underlying infrastructure of the economy. Its Marketplace for third-party sellers has become the dominant platform for digital commerce. Its Amazon Web Services division provides the cloud computing backbone for much of the country, powering everyone from Netflix to the CIA. Its distribution network includes warehouses and delivery stations in nearly every major US city, and it’s rapidly moving into shipping and package delivery for both itself and others.

By controlling this critical infrastructure, Amazon both competes with other companies and sets the terms by which these same rivals can reach the market.

And it goes on and on. So that gives you a bit of a flavor, and I think it will be useful for people to look at this report.

Basically what you have is: All companies want to move towards monopoly. Very few companies want to say, “No, I’m not interested in doing this because it’s against my principles and it’s against the best interest of other people.”



So you had Standard Oil and all those people trying to create monopolies on energy and railroads and so on in that channel, which was quite successful. The Sherman Antitrust Act came in place to essentially bust that up.

Nowadays you have that intention and also obligation to your shareholders to continue to increase market share and increase value and so on. So you have to drive towards monopoly almost by law, and then you have antitrust laws, which have been almost decimated. On top of that, you have a new world of the ability to create monopolies in incredible amounts of time – which is a short time relative to what Walmart was able to do or even what the railroads were able to do or what banking was able to do.

So technology has supercharged, not only the ability to collect data so they will understand your habits, react to it almost instantly, but also to supercharge the ability to expand the power over financial markets and over all types of markets – primarily anywhere they put their sights.

C. Austin Fitts: I'm going to be the bad guy here and say, "I don't think that this is technology."

For example, when I was in Hong Kong, Jack Ma was part of a group doing an innovation in the Pearl River Delta discussion. One thing that he was talking about was how important it was to use robotics and the AI to help small business be successful and competitive in this environment.



If you look at their growth, their business model is much more helping small business succeed and helping other businesses succeed as opposed to aggregating and taking them over.

I think that is one of the reasons my expectation is that they are going to grow faster and bigger than Amazon. In fact, if you look at what has been happening in terms of the cost of capital or application of technology, the US government has been making it much easier for this to be centralized in a way that is bad for the little guys as opposed to the way Ma is going about it.

I perceive that part of what is helping Amazon is intentional government policy designed to destroy small business and destroy municipal power.

Harry Blazer: I guess what I would say is this: I think any time a channel has that much dominance – whether it's under the brand name Alibaba or whether it's Amazon or anyplace – they become the dominant way that you have to participate in the market.

I'm not sure that either one is particularly great for small businesses. I don't think that small business is going to have much of a choice but to use these few channels – whoever is going to be left standing – to essentially get at market.

One thing that we need to realize is that it is much more convenient, first of all, to shop online for a lot of things. Where I live, I get two-day delivery for anything in the world, and I'm in the boondocks.



That's as long as it takes and in New York City it could take one hour or two hours for delivery.

The second thing is that I've gone to three different websites to buy a gun-related item. It was something to secure your weapon when you are doing target shooting. These three sites specialize in this.

One of the three sites had it, and it was \$99 plus shipping. I went to Amazon and it was \$63 and no shipping because I was a Prime Member. So after shipping, there is a \$50 difference on a \$63 item. In other words, they have totally changed in a fundamental way the economic model. Part of it goes back to that complete gross margin topic.

The other thing that I mentioned to you recently – which is worth mentioning here – is this entire thing called 'the tail'. I saw a number of items that Alibaba has listed on their website between various companies, and it was almost hundreds of millions of items.

A superstore carries 140,000 items and Costco carries 4,000. Stew Leonards in New York, which is the same as a food store, brag about the fact that they carry 1,200 items. You can get everything that exists in the world delivered to your door in the country in two days and in New York in almost a day.

C. Austin Fitts: So by 'the tail' what you mean many, many things in inventory that have very small volume?



Harry Blazer: Right. I did some work with supply chain companies, and there are entire lines that I won't go into, but there are very famous cosmetic companies that are in drugstores that sell maybe one a week or one a month. Sometimes they sell less than one a month, but when you go in, you expect to see it there.

Now you have this brick-and-mortar store that has tremendous amounts of space dedicated to things that they sell hardly any of. Even grocery stores today do this. The 80/20 rule applies in spades. They get 80% of the business from 20% of their products.

Now you have one store, and four miles away you have another one doing the same thing from the same chain. Well, Amazon can serve an area that would be the equivalent of 50-60 or even 100 supermarket stores with service, and now they can afford to have those items because they are serving that many more households out of one warehouse.

In other words, they can deal with that 'tail' of huge amounts of items that sell very little in a way that brick-and-mortar places can't. So that is another huge, huge advantage that totally changes the economic model for retailing.

C. Austin Fitts: Let's turn and look at what the stock market said about the Amazon purchase of Whole Foods. We know that Whole Foods was, what I would call, 'in play'. You had an active investor who started to make some noise, and Amazon had been talking to a couple of companies.



In fact, Amazon was worried about not getting into a bidding war. There was a back and forth, and they quickly said, “This is fill or kill. We won’t play with a bidding war.”

If you look at the stock market response, Amazon’s stock went up a little more than the total consideration for the deal, \$13.5 billion, but the competitors got wiped by almost \$40 billion. So we see the stock market deflating by about \$25 billion which, if anything, reflects the fact that what they expect is to see margins squeezed, and ultimately that means less stock market valuation. Isn’t that true?

Harry Blazer: The market has cast the vote, and they did it almost immediately. This joint venture between Amazon and Whole Foods represents a future that is worth a lot of money, and everyone else is a legacy player who is going to have to play catch-up if they’re going to be able to make it at all.

I think most of the grocery stores are walking dead and I’ve said that to you before. These people were fairly irrelevant to begin with, and now they’re going to become more and more irrelevant. To a large extent, I don’t think that they have any capability at all to close the gap. They keep recycling the same talent.

The most important innovation that has happened in food has come from the nonfood industry, easily arguably on the restaurant-retail store hybrid. If people haven’t been to one, look it up when you go to your major cities now in the United States. They started with one in Italy and now they are around the world in many places.



He did a great job on making an entire store out of Italian specialties, but combining food service with retail, then also vertically integrating and owning many of the companies whose products he sells. Then there's Amazon and Fresh Express and these other people who have done online delivery.

It's not the grocers that are creating the excitement. Not only that, but the restaurateurs – the food service companies – have been surpassing the supermarkets now for two decades in terms of creating excitement around food and wonderful things to eat and emphasis on local and sustainability and on and on.

The supermarkets, individually, are becoming more and more irrelevant.

C. Austin Fitts: I want to take a moment and analyze the cost of capital. If you examine the cost of capital, that is where Amazon wipes out every other player trying to compete with it. Since the bailouts, if we start on November 1, 2008, the S&P is up 153% and Amazon is up 1,700%. This is a stock that has been unbelievably successful for investors. It's trading at a PE of 188 times with no dividend. That means, between its contracts with the government and the way investors are pricing it, its cost of capital is almost zero and it's unbelievable.

If you just review Walmart, it's trading at a PE of 17 times and it has to pay a dividend of 2.8%. You look at those two costs of capital, and you say it's only a matter of time until Amazon destroys Walmart.



Harry Blazer: A brick-and-mortar business like Walmart is approaching \$500 billion in sales internationally, but yet failed in Germany and yet failed in Korea. They weren't able to make it in these places. By the way, eBay went into Southeast Asia and acquired an online auction house, had a major, major market share, and, within two years, Alibaba came and blew them out of the water within that time period.

You need to ask yourself: How quickly could Walmart produce \$50 billion in revenues? How quickly could Amazon?

Amazon could do it in a year. With Walmart, that would have represented at one point, five to ten years of brick-and-mortar growth.

C. Austin Fitts: Here is what is interesting: Whole Foods, fully priced with the deal, is trading at 33 times. That reflects a healthy premium. But even that, when you fold those earnings into Amazon, you're going to get a much higher PE on them. But it's even better: Whole Foods has a dividend. They can now cancel the dividend and use that money to grow the business.

Harry Blazer: Yes, and to a certain extent Whole Foods had hit a wall.

Their performance had started to decline; same store sales had started to decline; profitability was declining. Mackey was in trouble, and that's why these people – Jana and other investors – came in to force a deal. Who knows? They might have been stalking horses for Amazon and these people.



But the bottom line is that this deal also represents the fact that one of the most innovative, progressive, well-respected people in fresh and organic and so on – which is the major trend – had hit a wall, and Amazon is bailing them out to a certain extent. It's similar to the *Washington Post* hitting a wall, and Bezos bailing them out.

C. Austin Fitts: For 20 years, you have been at the heart of a war between the consumer who wants fresh, healthy, nutritious food, and an entire food industry that is trying to market nonfood as food – whether it's GMOs or whatever. They are trying to market innutritious rubbish and get people to think it's food so they will pay the prices of food when it's actually not food. It's like an invisible pricing scam that has been happening, and you have been at the heart of that because you have the knowledge and the intention to hold that line with integrity. You know what an ugly, bitter war this war has been.

Harry Blazer: I would say that I have not found anybody in the food business who has more intention in that regard.

C. Austin Fitts: Right. No one has more intention than you.

Harry Blazer: Not to brag, but I just haven't found it.

C. Austin Fitts: Right. So Whole Foods was trying to present themselves as having integrity in that way. I would say that I don't think that they did, but they did better than some.

With Amazon coming in, how is that going to change this entire effort of marketing nonfood as food?



Harry Blazer: This is a very, very critical point and is totally crucial. This is very important to bring up the point that I want to make. It hit me across the head the other day with this deal.

You had Hamilton Securities that, in many ways, was trying to do what I was trying to do in Fresh, in finance, and for local money when it comes to localities and making governments responsible and even the playing field, increasing transparency, and going for quality. You were derailed and were stopped because it was working.

One thing that you said to me was key. You said, “It didn’t have to be that way.”

In other words, Hamilton was creating a different kind of a vision for a different kind of a world. So take a moment and discuss that, and then we’ll make the comparison with what, to a certain extent, I was trying to do.

C. Austin Fitts: What I was saying is that new technology offers a tremendous opportunity for the small guy. Technology should make the small guy more efficient vis-à-vis the big guy. So what I was saying is, “Okay. Let’s take this technology and use it to do two things. One is to get a positive performance on government money that is negative right now, but let’s also use it so that the small guy can compete for capital based on market.”

Essentially what the government said is, “No. We’re going to use government money, and we’re going to use dirty tricks to make sure that the big guys can come in and aggregate all the small business.”



What they were looking to do was aggregate all small business income and flows into the big corporations and combine that with government money to insure that the Dow significantly outperformed the economy.

What they did was the opposite: You used technology to shut off the market and shut off competition and rig things towards monopoly players. So they played monopoly instead of optimization in markets.

Harry Blazer: So now I want to read two more paragraphs from this report, and then I want to tie a very important thought together:

And there's more still. Amazon now processes payments for other e-commerce businesses; it makes restaurant deliveries in more than a dozen cities; and it rivals HBO and NBC in producing television and movies. It manufactures thousands of products, from blouses to batteries to baby food; it employs more than 1,000 people working on artificial intelligence; it publishes books and its own titles often dominate the Kindle bestseller list. It's taking on Google in search and challenging Apple in devices. It owns familiar brands like Zappos, Shopbop, and IMDB; its Twitch has 100 million users and is one of the largest platforms for video gaming; and its Audible is the top purveyor of audio books.

Amazon Handmade seeks to capsize Etsy, and Amazon Business aims to destroy Staples and independent office suppliers. It's set up delivery lockers on college campuses across the country, and hosts a site that provides lesson plans for teachers.



It recently launched a music streaming service similar to Spotify, and in the last three years, its video streaming has grown from 1 percent to 4 percent of all prime-time internet usage. It's opening hundreds of brick-and-mortar stores, including bookstores, small convenience stores for groceries, and device showrooms for its Kindle and Echo speaker. It's growing rapidly in Europe, India, and China.

“Everything you buy, starting with your weekly groceries, will be flowing through one pipe called Amazon,” Scott Galloway, a professor of marketing at New York University's Stern School of Business, has predicted.

So it doesn't have to be that way, but you end up with somebody who has a lower cost of capital, has connections with the deep state to a certain extent, is willing to play ball with these guys, use their data and open their data to intelligence agencies and other folks – whether it's AT&T that we've learned about or Microsoft or you name it. In order to play this game, Facebook or Google or whoever you are, if you're going to get big and going to have this type of monopoly power, you're going to have to play ball with us. That's it.

C. Austin Fitts: Right. If you look at their Nest products, you're fundamentally talking about putting multiple surveillance gizmos in your home.

Harry Blazer: Absolutely, it's 5G network vying with the internet of things. You're talking about ongoing, continuous surveillance of every activity you do, combined with everything you buy, and the channel that you buy through.



One thing that Google and these people never had was that Amazon had more information on customers who were shopping at Kroger than Kroger did, but they didn't have that transactional data. Now with Whole Foods, they have the transactional data at the counter combined with all the data that they have with everything else.

C. Austin Fitts: Did you see that video that went around? It was so cute! I retweeted it out.

A young woman turned to her Nest or Siri and said, "Are you sharing my data and my conversations with the CIA?" and it wouldn't answer.

Harry Blazer: Of course, it was national security not to answer.

The point is: It's moving inexorably this way and you've put the question out there.

C. Austin Fitts: Before we get to the question, I want to bring up two more points about what is happening on the ground. You are headed towards the most important question, and that is where I want to end up.

I want to talk about sales tax. Is one of the reasons that Amazon has grown as quickly as it has vis-à-vis brick-and-mortar and small businesses because brick-and-mortar was paying sales tax and supporting the local municipality and Amazon has been marketing without sales tax?



We've seen a pushback by states, and some states are now collecting sales tax, and Amazon is doing some collections, but it's fair to say that if you look at state and local financial impact, there is a tremendous advantage that the online companies have had. Is that not correct?

Harry Blazer: This report also goes into that and many other ways that they have been smart in terms of using these types of openings to create loopholes.

In Montana, there is no sales tax, but Florida has a sales tax at 6-7% and in some places there is 11-12% sales tax.

C. Austin Fitts: Right. I live in a state with no income tax and a high sales tax.

Harry Blazer: So right away, I can go to Amazon and, if I'm paying the same price for the item, I'm saving 5-10%. So that was an incentive right away if it was equally priced everywhere else.

I think there are only 16 states left that are not forcing them to charge sales tax.

C. Austin Fitts: It's interesting. I live in a very small community, and one thing that we love is having our own post office. One thing that I will say is that Amazon and the online guys have literally saved our post office from going under.

Harry Blazer: Until they come up with their own UPS and FedEx network, which they are currently working on.



C. Austin Fitts: Right, and there is one other thing that I want to say about transportation. I noticed, about five years ago, that there was a building-out of warehouse infrastructure throughout the country. If you consider how much money has been poured in every urban area and suburban area into building out huge warehouse facilities where the trucks come in, dump the merchandise, and whatever, and as the traffic in the malls is declining, five or ten miles away there is a warehouse being built. It's quite dramatic.

That was clearly in anticipation of what is coming. If you look at the traffic that those warehouses are getting, it's nothing compared to their capacity. So there is obviously a very well engineered plan for this switch to accelerate and produce much more of a dramatic change than we are seeing right now.

Harry Blazer: In this report, here is a statement for you:

Amazon has pocketed at least \$613 million in public subsidies for its fulfillment facilities since 2005, our new research finds, and more than half of the 77 large facilities it built between 2005 and 2014 have been subsidized by taxpayers.

These are big centers.

C. Austin Fitts: Right. They're huge.



Harry Blazer: It is a million square feet or so. People laughed at this guy to begin with and thought that he was nuts for building that type of a logistic infrastructure, but it has basically become an amazing competitive advantage. So you have to give the guy some credit because he went against what was the normal thinking of the day – the Harvard business school studies in how you’re supposed to do things.

C. Austin Fitts: I think that Bezos is very, very capable.

I stood up at a conference in 1996 and basically said that Amazon was going to take over the world and was going to be an exceptional investment. I remember everybody looking at me like I was absolutely nuts and arguing with me. I argued it in front of an audience of a couple of hundred people for about ten minutes. It was rather interesting.

I said, “If I have a database of what everybody in the world wants to know and wants to learn, do you know what I can do with that? Do you know how I can grow?”

Harry Blazer: You were talking about the power of data and the significance of data for two decades. You were the one who said, “We’re not in control of our government. The government is in control of the government. It’s the people who control the data who they outsource it to.”

By the way, I recently saw a story where Erik Prince and those people are suggesting to Trump that he outsource war. Much of it has been done already, but they’re saying, “Just get all the US troops out and outsource the entire war to my company in Afghanistan.”



In any case, here are a couple of things:

Amazon's growing market share has so far caused more than 135 million square feet of retail space to become vacant, the equivalent of about 700 empty big-box stores plus 22,000 shuttered Main Street businesses.

Property taxes are the leading source of revenue for state and local governments, and brick-and-mortar retailers shoulder a large share of this tax responsibility. As it displaces these businesses, Amazon, which has no property in 20 states and only a minimal footprint in the places where it does have warehouses, is not replacing this critical source of revenue.

Much of the vitality of our cities is linked to commerce that is based on the street and the many encounters with neighbors and friends that occur as we run errands. At Amazon, shopping is a solitary activity, and this has profound implications for our communities and how we relate to one another.

Local business ownership is a powerful source of social capital, as well as an expression of closely-held American values, like personal agency and community self-determination. In recent surveys, locally owned businesses name Amazon as the top threat to their survival.

This continues and is a very good report because it gets exactly to the point that you're saying.



In other words, these guys are providing an economic proposition which is irresistible. The consequences of that for our lives is not well understood, especially when you combine it with all the data mining, the 5G, with the internet of things, with artificial intelligence, and on and on.

The point is: What could it be? If Bezos or Walmart turns around and says, “If we are going to invest in proving the manufacturing infrastructure and making it clean this time” – not reproducing Gary, Indiana where you need a gas mask to go through the city on the highway going across country – “but we’re going to make clean manufacturing, and we’re going to basically become the major customer for these people. They never have to worry about having a customer, and we’re going to pay them a decent margin, and we’re going to sell it as cheaply as we possibly can so that everybody wins,” instead of saying, “We’re going to export all of our jobs to China and have them do the manufacturing and export pollution there as well and destroy their life there because they can hardly breathe the air in most places and how contaminated things have gotten.”

C. Austin Fitts: You need two things: One, you need the citizens to insist that we enforce the laws related to financial management and government money. Two, you need investors say, “I’m not investing in the stock of dirty dogs. So I’m going to shun the dirty guys in the marketplace with my purchases or investments.” The other is that the government has to obey the law.

You change those two things, and all that sorts out.

Harry Blazer: It does but it hasn’t happened yet. It’s going the other way as far as I can see and I’m not very optimistic.



C. Austin Fitts: I'm not letting everybody out on the excuse, "It has to be this way." It doesn't have to be this way. If you look at what we have to do to change it, it's really not that hard.

I'm not saying that America is not in some kind of a mind control trance; I'm not saying that they are going to change and I'm not predicting immediate success. What I am saying is: Don't say that we can't do it, and don't say that it's hard because that is not true.

Are we too lazy? Are we not willing to do it? Are we mind controlled? That is a different conversation, but it is relatively easy to change this.

Harry Blazer: By the same token, I want to return to Amazon. Let's say that Bezos' intention was, "I'm going to make the small farmer the real hero. I'm going to help revitalize soil. How am I going to do it?"

He gives tremendous amounts of loans. He has \$1 billion of loans out to companies, by the way. It's by invitation only. So he's looking at what is selling on his sites, goes to those businesses, and says, "We'll loan you this money so you'll be able to do this, this, and this with it."

He helps them expand it. He charges 14% interest on the money when banks are giving you 2% on your savings, but he has \$1 billion of loans out there. That is the other thing that he does for local businesses on his network.

C. Austin Fitts: I want to point out one thing: If you look at what the government is doing, the government has the small banks in a regulatory squeeze. It's making them buy instead of making character loans to businesses or competing with Amazon, it's making them essentially buy long treasuries to finance the government.



That leaves the market open to Bezos.

If the government didn't have the clamps down on the small businesses and the small credit unions and the small community banks, it would be a very different story.

Harry Blazer: Let's say he said, "I want the farmer to own his land. I'm going to provide feed, I'm going to provide a community network where people can share intellectual property and ideas and best growing practices and these types of things. We're going to have a crop insurance policy for these farmers so that if somebody gets hurt in the Midwest, we can spread the risk. And we're going to insist on our brand of fresh because we're going to build a real level of trust when it comes to fresh, and we use biodynamic or organic practices of soil, agroecological practices," and on and on. He could create the foremost brand in fresh and at the same time create incredible vitality in local communities and the farming community and revitalize our soil and similar types of things.

The point is that Walmart has the power to do it in many, many ways, and Amazon has the power to do it. Are they going to choose to do it because they could?

I think that it ends up being a much better business. They would end up having a middle class that could afford to shop with them. That was Walmart's problem and that's why they hit the wall. They supported so many middle class jobs that they didn't have a middle class anymore that could afford to shop with them.

How much of their business comes from government subsidies and welfare?



C. Austin Fitts: Plenty of it.

Harry Blazer: Right. It's a downward spiral unless those people in power who have the ability to do this make a commitment or the millions and millions of people who are helping support that network make a decision to say, "We're not going to support unless you change your behavior."

C. Austin Fitts: You have two choices: You can continue to outlaw entrepreneurship and play these regulatory and cost of capital games. At that point, you're either going to have massive die-off or you're going to have what Zuckerberg wants, which is universal income. Or you can simply stop outlawing the entrepreneurial economy. Those are your choices.

You can have a universal income, or you can stop rigging everything for monopoly.

Harry Blazer: And it comes down to the fundamental question that you wanted me to avoid, which is: Are we going to have a human world or an inhuman world?

C. Austin Fitts: Now let's get to the fundamental question. Actually, there are two fundamental questions: 1) Are we going to have a human or an inhuman world? 2) Is this hopeless? Do we have to go along with the monopoly model? That is going to take us to the inhuman world if we have to go along with that model.

Harry Blazer: "And all I'm doing is shopping on Amazon and saving money. I want my groceries delivered. Don't tell me I'm making an existential choice for the entire universe."



C. Austin Fitts: I was always an Amazon fan. When I moved to the rural areas, I got to the point where I really didn't have a choice other than Amazon or Walmart, and I was not going to do Walmart.

I'm not trying to figure out how to get out of Amazon because I find their invasion of the home disturbing. It's one thing if I'm getting a book delivered through the post office – and I like supporting my local post office. But it's another thing if they're trying to put some device in my home that allows them to listen to me.

Amazon didn't used to be creepy but now they're getting creepy. From the moment they did the deal with the CIA they started to get disturbing. Now it's, "I really don't want to shop at Amazon. It's way too creepy for me."

Harry Blazer: It's very, very difficult but what is the alternative? You can go to many different sites. You can go to Home Depot to get certain things, and you can go to another site to get other items, and sometimes you're going to have to make a decision. You might have to pay more or you might be more inconvenienced to do it.

But I think that what we're both saying is that those choices are going to have to be made. The government is broken. The government is an organized crime network, and they are going to be beholden to the guys who pay them. They don't look at the taxpayer as that; they look at the people who are making those contributions to their elected campaigns and promising jobs when they get out and so on.

It comes down to the individual about choices in terms of whom you want to buy from and how you want to vote with your dollars.



I don't know but I think we seem to be swimming upstream a bit to say, "Pay a little more and be inconvenienced."

C. Austin Fitts: Here is what I think. Let's talk about what the subscribers should do as a result of understanding the Amazon-Whole Foods deal. I think the first thing we all need to understand is the acceleration from Global 2.0 to 3.0 is actually happening. Certainly in the Annual Wrap Up-when I went to Montana and you were a great help in helping me to do that-one of the reasons that I wanted to focus everyone on the global harvest and the food business was because I said that this year the acceleration is going to come fast and furious. That means that the Global 2.0, the controlled demolitions and the collapse of the pension funds and the state and local government, is going to accelerate. That is exactly what has happened.

What I've realized is that when the Amazon-Whole Foods deal happened, somehow it made it real to everyone. It's not that Global 3.0 is going to happen; it's that the acceleration is actually happening.

Each one of us has to make adjustments. How we do that is totally different. Where my opportunity is in 3.0 is different than yours, but it's real, it's happening, and the acceleration is upon us. That is number one.

Harry Blazer: Let me add one thing to that. I've never seen such a consensus in the business world over a business deal that basically says, "This is great," and gives 7,000 reasons why it's good, but also how it's going to change the world. And exactly to your point, there is a gigantic consensus that this deal is changing retailing and other things in a very fundamental way.



C. Austin Fitts: I think one side of this is that Amazon is growing, and another side of this is that Illinois could, without question, – as a state – break up because it’s coming apart at the wheels financially. So we could see Illinois get their bond-rating moved to junk, and we could see Illinois or Chicago end up in bankruptcy.

Harry Blazer: Apple could buy the debt and own Illinois and only spend one-tenth of the cash that they had.

C. Austin Fitts: Exactly. You know I believe that the reason they pumped and dumped the housing market is that from a very long-term standpoint it was clear, starting in the 1990’s, that this technology – network technology, telecommunications, and digital technology – was going to dramatically deflate costs including energy costs.

I’ve always said that the money to be made there was not to be made on the businesses that deflated the costs, was not going to be made on the energy companies, it was going to be made on the real estate.

It was clear back then that you’re talking about a radical increase in valuation on land and real estate, whether it’s peak everything or this deflation through technology of different costs including energy costs.

When you talk with real estate developers, what they will tell you is: You bring a Whole Foods in, and you improve real estate values in the neighborhood and it’s very significant.

Harry Blazer: Real estate agents used to advertise the fact that it was near our market. But let me mention one thing that is very relevant to what you are saying.



Large amounts of the profit of supermarkets – whether it’s a Safeway in California, Loblaw in Canada that is owned primarily by the Westin family, ATB, and many other places – are set it up so they have a separate company that owns the real estate, and they charge the operating company a lease rate.

They make more money oftentimes from that lease rate – the rent that they charge their own stores – than they do operating the stores.

C. Austin Fitts: They make money in the real estate business, right? They are in the real estate business, and their profits come from the real estate. I don’t know if you’ve seen the new movie about Ray Kroc and the building of McDonalds, but there is one point at which a very smart business person hooks up with him and explains that he is in the real estate business and he needs to reorganize his business model to reflect the fact that his success comes from being in the real estate business.

Harry Blazer: This is the other side of it. With Whole Foods, the vast majority of their sites are leased. Amazon is essentially a virtual company. It is transitioning, but they are primarily a virtual company. So a sizeable amount of that wealth is now not around real estate, specifically.

C. Austin Fitts: But if you see the distribution network that they are building out, they are going to have a great impact on the value of the economy in a place.



If you look at the person who is positioning himself to make the money on the real estate, it's Warren Buffett who Jeff Bezos bought the *Washington Post* from. You almost wonder – if you look at the deep state who is deeply entwined with both of them – if the deep state is planning on making their money in the real estate through Buffett but creating that value through Amazon.

Harry Blazer: By the same token, I sent you an article that says, “In the economic circle of life, businesses are dying faster than ever.”

What this is pointing out is that, except for a few key areas – New York, Miami, Los Angeles, Houston, Dallas, and Salt Lake City – where entrepreneurs are being successful, where real estate has premiums, and there is real vitality activity, almost everywhere else it's the opposite. There are going to be pockets where real estate is very significant, and then other places where nobody wants to own it.

C. Austin Fitts: This relates back to this issue of monopoly requiring universal income. Optimization in markets will permit new growth and you can't have both.

Harry Blazer: Right, but you are in the process of summarizing it in a very important way. I wanted to add something, but I didn't want to take it off track. You made your first point, but it seemed like you had other points to make.

C. Austin Fitts: No, that is it. It keeps coming to this: Are we going to have something which is centrally controlled and monopolistic, which then requires universal income or die-off, or are we going to let optimization in markets occur, at which point it's going to be much more dynamic and you're going to allow decentralized growth?



Think of it this way: You either have decentralized growth, or you have universal income. I think one is human and the other is going to end up in slavery.

Harry Blazer: The confusion is that Amazon looks like decentralized growth or eBay or Alibaba because ‘I’m a business’. I can now, for almost no money, launch my storefront, and they can do fulfillment for me, and they can do all this and all that. You’re essentially working for ‘the boss’. You have to buy the merchandise at their store, and they own the house, and on and on.

C. Austin Fitts: Right, it’s high-tech serfdom.

Harry Blazer: The point is that it is being marketed, and looks like it’s a decentralization process. Apple and all these people talk about, “We’ve given you all these tools for technology so the power can now be with you,” as in that famous 1984 commercial that apple ran where they threw the hammer at the screen.

The bottom line is – and I’ve been telling people this for years –these mechanisms, especially the internet, can be one of the most powerful enslavement mechanism you could ever imagine.

C. Austin Fitts: Right. It’s what Andrew Vachss says, “The internet is the ultimate op.”

But I return again to the pot of government money. The big lie is, “Oh, Amazon is really efficient, and the rest of these guys have fallen behind the times, etc.” but the reality is that, if you dig in and look at the economics – both by industry and by place –



and you see the impact of the combination of dirty tricks, plus regulations, plus gains over the cost of capital, the small business cost of capital is much higher than it should be because of government violating government financial laws and dirty tricks.

I would say that the number one reason the monopolies have succeeded is violence.

Harry Blazer: The other way that I would put it is that the people who are most successful have the best understanding of how to work the system.

C. Austin Fitts: Right, I agree.

Harry Blazer: As long as there is a system to work, those people are fundamentally cleverer at figuring out how to work the system than being cleverer at how to create greater good.

C. Austin Fitts: One thing that I will say that the deep state is very good at is recognizing talent. If the talent will play ball, they use that talent to do things, which squeezes out the margins on things and , in fact, does bring very focused productivity in certain ways.

So they are very focused on getting productivity on individual processes. They have absolutely no interest in getting productivity on government processes, but when it comes to consumer or private market processes, they are very dedicated to that and are very good at it.

I'm not saying that there is not much talent here; there is.



Harry Blazer: Well, Walmart and Amazon – you have a choice. You can undoubtedly make a positive difference for the decentralization team while these companies make more money than you can imagine.

C. Austin Fitts: Right, and it's not zero or one. The alternative is not to buy anything at Amazon. If you live in a rural area like I do, it's the long tail. Some things you're going to have to go to Amazon to get, but there are many other things that you can get elsewhere.

Here is the question for you: Do we have to go along?

I was in Bangladesh for a week after I left Hong Kong, and one thing that struck me everywhere I went – in private homes, in restaurants, in what we bought on the street – the food was so fresh that it was incredible. Even when you were eating a cooked curry, you could taste the freshness of the food; it was remarkable. It was a reminder to me of how unfresh the food in this country is. It's a complete different standard of fresh.

Harry Blazer: That's what I'm saying. I was on the phone this morning with a major, major retailer trying to give them the same message. These people have the opportunity to change the paradigm. They have the power, they have the market share, and they have all the influence that they need and they can do it.

It goes back to your three fundamental building blocks: Bank local, shut off your TV, and eat fresh.



I would say that the biggest choice that we have and the easiest choice that we have is to support those local conscientious farmers who are truly enriching our lives by taking care of the soil and by growing the correct varieties of food that can give us the nutrition and the joy and the energy to live very fulfilling lives.

C. Austin Fitts: I know that when I go to your house, you buy a fair amount from one of the local farmers who we met in 2005. I'm always amazed when I bite into something – particularly the greens – and it's a totally different experience with the nutrition in those greens. It's unbelievable.

In my opinion, ultimately the question for the people on the phone is, not what the price is that you're paying for your food, but is it food? Forget where you buy the food. I think that if we're going to have a human future, you have to have nutrition. It's very important to get the best nutrition you possibly can.

I hate to say it, but you're not going to get it at Whole Foods, and you're certainly not getting it at Amazon and I don't believe it.

Harry Blazer: A friend of mine, who had intimate problems with addiction and overcame them, said to me that one of the rules in the diction is, "Don't put the stuff in." So don't put the poison in your body. That would be my recommendation. "Don't put the stuff in."

C. Austin Fitts: Touché.

Before we close do you have anything else that you want to say in terms of Amazon-Whole Foods or where the food world is going?



Harry Blazer: There are many things that I could say, but I will include a collection of materials and my analysis. I wrote an article for a journal, and there are other articles that we can attach, plus the special report. That will give people the information that they need to understand the significance of the deal and then, also, to make some decisions themselves about how they would like to proceed.

What I want to say is: We don't know what the significance of this deal is yet. We won't know what the significance is until it plays out, and it can play out in a number of different ways. There is an opportunity for a wealth good to come from it, and there is an opportunity for much more of the same – centralization, rigging the game, and playing the system to the benefit of the few to the disadvantage of the many.

We know what team you and I are on and we are very clear about that.

C. Austin Fitts: Here is the thing: You and I are on the prodecentralization team, but we're on the side of the prodecentralization team that wants to provide excellence in terms of quality of product at an affordable price.

Traditionally there have been plenty of people in the prodecentralization team who only wanted to be sluggish. It's really important, if the prodecentralization team is going to get back in the game, we have to match the legitimate productivity on the other side of the fence.

Harry Blazer: That's what those German discounters are showing.



C. Austin Fitts: That would be very interesting because the Germans are amazing on this topic.

Harry Blazer: Lidl, for example, actually has fairly high standards in terms of ingredients. They were very sensitive to the entire GMO issue all along. They're bringing more and more organics in, lowering the prices, and making it more accessible. These people need to be watched. They could be a true game-changer as big as this total Amazon-Whole Foods thing.

C. Austin Fitts: When I was in Bangladesh, I was meeting with former Congresswoman Cynthia McKinney who, of course, was a Congresswoman from Atlanta and grew up in Atlanta while you were there. Farmer's Markets was where she and her mom shopped for their food.

She said, "What we all need is Harry's Farmer's Market."

Harry Blazer: It was great to talk with you, and I appreciate the opportunity to visit with your subscribers. You are a remarkable person and a remarkable resource.

C. Austin Fitts: Could you give us your website and give us a moment on what is coming up on the Food Series?

Harry Blazer: My website is www.BlazerConsulting.net. What is coming up on the Food Series?

C. Austin Fitts: Your interviews with Chris Mann and we are working on them now.



Harry Blazer: Chris Mann is a person who has every book that Rudolf Steiner wrote in multiple languages. He has been instrumental in promoting the Rudolf Steiner way in dance and music and agriculture and on and on in this country. His parents were intimate friends of Rudolf Steiner, which is biodynamics. This guy is an amazing living resource, and I spent a number of hours with him in his home in the Midwest. We have some very interesting interviews for people to listen to.

C. Austin Fitts: The Chris Mann series is coming. He and his wife founded the Michael Fields Institute in East Troy, Wisconsin, one of the great centers of biodynamic farming in this country.

Okay, have a wonderful day. Thank you again for joining us on The Solari Report.

Harry Blazer: Thanks so much.



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