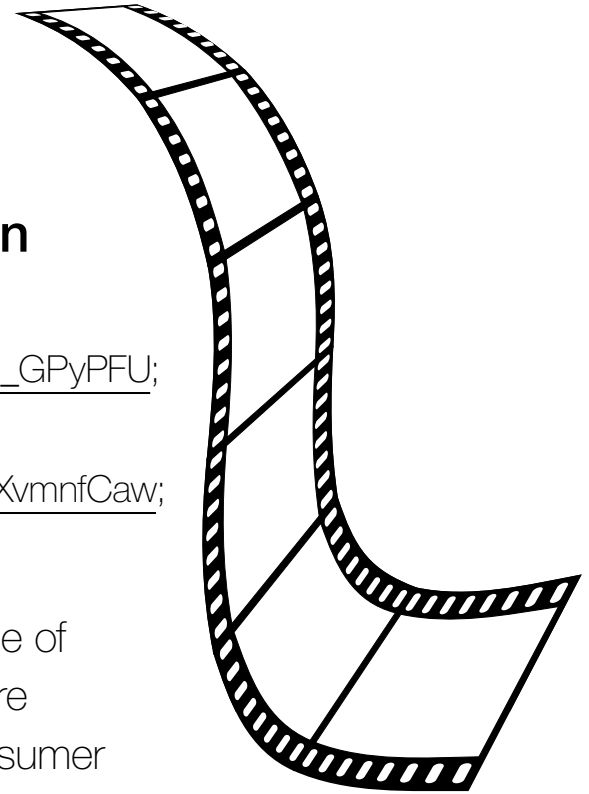




## video case



### chapter 9 Online Retail and Services

#### case 9.1 Walmart Takes On Amazon

##### watch the videos at

[https://www.youtube.com/watch?v=mLGt\\_GPyPFU;L=18:59](https://www.youtube.com/watch?v=mLGt_GPyPFU;L=18:59)

<https://www.youtube.com/watch?v=WxQXvmnfCaw;L=2:58>

##### summary

In what promises to be the retail battle of the decade, Walmart and Amazon are going head-to-head for the retail consumer dollar. Walmart brings to the fray the largest physical retail presence in the United States, with over 5,200 stores. But for many years, it lacked a powerful online presence. Amazon brings to the fray the largest online retail presence in the United States, but Amazon lacks a physical footprint in retail commerce. Walmart is moving towards an omni-channel approach that combines online and offline retail, while Amazon is emphasizing same-day delivery, local drop-off boxes, and may well introduce local physical stores in the future, especially with its purchase of Whole Foods in 2017. The videos for this video case provide further information on Walmart's senior management strategy for developing a competitive online presence.

continued

**case** Traditional retail in the United States, the kind you find at the malls, and urban department stores, is in trouble. The very large retailers such as Walmart, Macy's, Kohls, Sears, and Nordstrom all have reported about 1% to 2% sales growth since the recession of 2008. In 2017, Target, Macy's, Sears, JCPenny, and others closed hundreds of stores. Since 2000, consumers have been shifting away from traditional retail goods like apparel and electronics (the mainstays of retail stores), and buying more services like vacations, exercise, dining, and health care.

The much bigger threat to traditional retail is coming from online retail, mostly Amazon, that has gobbled up the lion's share of online retail (over 30% of all online retail), and has been growing at astounding rates since 2008. Apparel and electronics are also the largest sales items for online retailers, so the physical stores and the online giant all compete selling the same goods.

Traditional retailers have spent more than \$1 billion in the last decade trying to become online retailers, and meet consumers wherever they want to buy: online or at a physical store. It's called an "omni-channel" strategy: using multiple channels like physical stores and the Web and mobile apps to sell products. Many traditional large retailers such as Walmart, Macy's, and Costco, have wound up in the top ten online retail rankings. But so far the omni-channel strategy has not been especially successful in keeping up with Amazon's growth.

In what promises to be the online battle of the decade, the two biggest players, the heavy weights, Walmart and Amazon, are going head-to-head for the consumer dollar. In a broader sense, it's the online-business model versus the physical- department-store business model that was invented by Macy's in 1870. But to be fair to the traditional retailers who have developed their online and mobile sales channel, it's more accurate to say it's the omni-channel model versus the pure-online digital model of Amazon.

Walmart's revenues for fiscal 2016 (ending January 31, 2017) were about \$485 billion, the highest of any American company and leading the Fortune 500, and it had net income for the year of about \$13.6 billion. E-commerce revenues accounted for just around 3% (about \$14.5 billion) of Walmart's total revenue. But in 2016, Walmart bought startup Jet.com, a small but fast-growing Amazon competitor, and since then it has invested more than one-third of its capital spending in digital initiatives. Those efforts appear to be having an impact, significantly boosting its e-commerce revenues over the past year, a trend that Walmart expects to continue into 2018. But Walmart's online business still has a long way

continued

to go in challenging Amazon. For instance, Amazon, which had \$135 billion in revenues in 2016 (No. 12 on the Fortune 500), offers over 300 million products, compared to Walmart's 10 million.

### video case questions

1. What are the three key assets that Walmart can leverage (build on) to compete with Amazon and other online retailers?
2. What is Walmart's e-commerce strategy?
3. Why isn't Walmart worried about the channel conflict between its online sales and its store sales?
4. Why is Walmart in-sourcing the development of its online operation, in part by acquiring technology companies rather than outsourcing development to low-cost countries and other domestic firms?
5. Why did Walmart acquire Jet.com?
6. How does Walmart's fulfillment operation differ from Amazon's?