

AMAZON vs WALMART: CLASH OF BUSINESS MODELS

Alessio Morgantini

HULT International Business School

Sales Management

Dr. Caryn Pang

04/23/2023

Amazon vs Walmart

Differences in the “Marketing Strategy”

Even if Amazon and Walmart in 2021 are the two companies with the world largest revenue, (Amazon is the second with US\$469.8 billion, Walmart lead with US\$567.7 billion), they have never been competitors since their focus was different (Kumar & Mittal, 2022).

Amazon was specialized on online selling, while Walmart in brick-and-mortar retail (Kumar & Mittal, 2022). Amazon online business model aimed to provide customers with the convenience of shopping from anywhere, at any time. To achieve this, Amazon invested in creating a user-friendly platform with a vast product selection and a reliable fulfillment infrastructure that could efficiently deliver orders to customers (Kumar & Mittal, 2022). Amazon utilized customer data on their product and pricing preferences to develop their brands accordingly. They sometimes achieved this by copying the top-selling products in the category and selling them at a lower price (Kumar & Mittal, 2022). Since the start, Amazon has consistently made key decisions and plans with a strong focus on developing long-term market leadership through customer orientation, rather than solely prioritizing short-term profitability (Kumar & Mittal, 2022). In 2009 the private label program “AmazonBasics” captured a significant portion of the market, accounting for one-third of the market share. As a result, Amazon expanded the product line to include over 14 categories ranging from electronics to home essentials. They launched multiple in-house brands in different product categories to increase their narrow retail margins (Kumar & Mittal, 2022). Over time, Amazon has introduced several labels for clothing that cater to a broad range of customers, including women, men, children, and infants (Kumar & Mittal, 2022). In 2020, Amazon dominated online apparel sales in the US, accounting for over 35% of all sales. This is seven times more than the second-largest online apparel seller in the country, Macy's (Kumar & Mittal, 2022). Walmart's business model centered around providing the most competitive prices on a range of everyday goods to its in-store customers across its vast network of over 10,500 stores worldwide (Kumar & Mittal, 2022). Walmart's fundamental belief was in providing the most affordable prices by minimizing operational costs and achieving economies of scale (Kumar & Mittal, 2022). Its pricing strategy, which guaranteed to match any lower price offered by competitors, was based on offering 'everyday low prices' (EDLP) to all its customers and formed the basis of its success (Kumar & Mittal, 2022). Walmart's prices were typically 20-30% lower than local stores or supermarkets and 2-4% lower than its main competitors such as Target and Kmart (Kumar & Mittal, 2022). Walmart empowered its store managers to immediately reduce the price of any product to match local competition (Kumar & Mittal, 2022). “Advertising focused on conveying the message of «Always low prices, always» with Walmart” (Kumar & Mittal, 2022). The company has expanded into smaller towns and rural areas of the US by offering a vast selection of non-perishable goods at much lower prices compared to existing mom and pop stores (Kumar & Mittal, 2022). The stores, which range from 30,000 to 80,000 square feet, offer a large assortment of products, except for perishables, and have attracted shoppers from as far as 50-100 miles away (Kumar & Mittal, 2022). Walmart's strategy of locating stores primarily in towns with populations of 5,000 to 25,000 people has allowed it to benefit from lower real estate costs and limited competition from other big-box retailers (Kumar & Mittal, 2022). The company has pursued an 'inside-out' radial expansion strategy by locating its stores and warehouses contiguous to existing locations (Kumar & Mittal, 2022). Walmart is the market leader in the US with net sales of US\$393.2 billion in 2021 (Kumar & Mittal, 2022). The company operates 4,600 pickup locations and over 3,500 same-day delivery locations throughout the country, and its stores and clubs are located within a 10-mile radius of around 90% of the US population (Kumar & Mittal, 2022). With 157 distribution centers, Walmart has one of the largest distribution networks in the world (Kumar & Mittal, 2022).

The value network and distinctive capabilities

As it was said before, Amazon has consistently prioritized customer orientation in its decision-making and planning, with a strong focus on developing long-term market leadership, rather than solely emphasizing short-term profitability, this approach enabled Amazon to continually experiment with its business model and introduce innovative services (Kumar & Mittal, 2022). In 2000 the launch the Amazon's 'Marketplace' platform,

Amazon vs Walmart

which allows third-party sellers to sell on the platform (Kumar & Mittal, 2022). The number of active sellers has grown to over 1.9 million worldwide by 2020, including 500,000 small and medium US-based businesses, and they generated 60% of Amazon's gross merchandise value (Kumar & Mittal, 2022). Thanks to the intuition of investing in cloud computing, Amazon opened "Amazon Web Services" (AWS) (Kumar & Mittal, 2022). Amazon has been prioritizing its core online retail business and its on-demand cloud computing platform which, after a slow start, has proven to be the most profitable business segment of 2021 (operating income of US\$18.5 billion on revenues of US\$62 billion) (Kumar & Mittal, 2022). In 2005, Amazon identified that the primary obstacle to wider adoption of their online shopping model was the expense and time involved in delivery (Kumar & Mittal, 2022). To address this, they launched Amazon Prime, which offered customers in the US unlimited free two-day delivery on many items for an annual fee of \$79 (Kumar & Mittal, 2022). Over the years, Amazon has expanded the benefits of Prime to include free access to books, movies, and music through Prime Video, unlimited cloud photo storage, and an annual sales event called Prime Day (Kumar & Mittal, 2022). Amazon introduced a locker system in 2000, which consisted of self-service kiosks located in public places for customers to pick up or return their packages at a convenient time and location (Kumar & Mittal, 2022). In 2017, they extended this service with the launch of the hub locker delivery system for housing complexes, allowing residents to receive and retrieve their packages at any time (Kumar & Mittal, 2022). This service eliminated the need for customers to be present at home during delivery, as well as the requirement for a doorman or concierge, giving Amazon more control over the final stage of delivery logistics (Kumar & Mittal, 2022). "Amazon also introduced the concept of Prime Air – a delivery service using drones (unmanned aerial vehicles) in 2013" (Kumar & Mittal, 2022). Amazon Key was a unique service introduced by the retailer that allowed Prime members to remotely monitor the delivery of their packages inside their front door, even when they weren't at home (Kumar & Mittal, 2022). This service proved especially useful for busy families who didn't want to give keys to service providers like house cleaners. Instead, they could use the Amazon Key App to provide them with a code for access (Kumar & Mittal, 2022). In the US, consumers began using Amazon more frequently to search for products, and by 2016, Amazon had surpassed Google as the preferred site for starting product searches (Kumar & Mittal, 2022). However, Jeff Bezos was initially hesitant to see advertising as a significant revenue source for Amazon (Kumar & Mittal, 2022). In 2019, Amazon consolidated their advertising services into one category called Amazon Advertising (Kumar & Mittal, 2022). Amazon emerged as a significant contender in the online advertising industry, competing against established rivals such as Google and Meta, the three companies combined accounted for more than 74% of global advertising expenditure (Kumar & Mittal, 2022). Walmart, on the other hand by forging strategic partnerships with its largest suppliers, they revolutionized supply chain practices and reduced system costs by leveraging information technology (Kumar & Mittal, 2022). Walmart prioritized cost efficiency and established a culture of frugality that extended to both employees and vendors (Kumar & Mittal, 2022). The company invested heavily in technology, such as its proprietary intranet RetailLink, which facilitated immediate and transparent information sharing between suppliers and the company (Kumar & Mittal, 2022). Walmart achieved almost perfect order fulfillment rates with minimal distribution costs by implementing Vendor Managed Inventory (VMI) and cross-docking (Kumar & Mittal, 2022). The retailer also formed long-term, high-volume partnerships with vendors to secure the lowest prices possible (Kumar & Mittal, 2022). As a result, Walmart's inbound logistics costs were significantly lower than those of its competitors, and the amount of store space dedicated to inventory was substantially reduced (Kumar & Mittal, 2022). Out of the wide range of items sold by Walmart, groceries which includes perishables, frozen foods, beverages, dry groceries, and non-perishable household and personal care products were the biggest category, accounting for 56% of sales (Kumar & Mittal, 2022). This was followed by general merchandise such as entertainment, apparel, home furnishing, hardware, and horticulture, which made up 32.3% of sales (Kumar & Mittal, 2022). The health and wellness category including pharmacy, optical services, clinical services, over-the-counter drugs, and medical products accounted for 10.4% of sales (Kumar & Mittal, 2022). In the 1990s, Walmart introduced two new store formats - Sam's Club and Walmart Supercenters - that were key to the company's growth (Kumar & Mittal, 2022). Sam's Club was a membership-based store that catered to small businesses and individuals, offering a no-frills environment with limited SKUs of around 3,500

Amazon vs Walmart

and large pack sizes (Kumar & Mittal, 2022). This allowed Sam's Club to operate on gross margins of 9-10% (Kumar & Mittal, 2022). Walmart Supercenters combined the original discount store concept with perishable goods, particularly groceries. These stores averaged 125,000 square feet and carried 50,000 SKUs across 36 departments, with the largest ones reaching 200,000 square feet (Kumar & Mittal, 2022). However, the addition of perishable goods required Walmart's efficient supply chain, which previously focused on ambient products, to adapt to accommodate chilled and perishable items (Kumar & Mittal, 2022). The company's commitment to customer service and low prices allowed it to become a dominant player in the retail industry, with a significant market share and loyal customer base (Kumar & Mittal, 2022).

The Omnichannel challenge and Future for Walmart

As highlighted before, Walmart's focus was mainly on physical stores (Kumar & Mittal, 2022). Their focus over time shifted to investing in the online platform rather than opening new stores (Kumar & Mittal, 2022). The shift in customer preference towards omni-channel retail, which provides a seamless experience that combines both digital and physical retail, has caused both companies to invest significantly in developing the necessary capabilities and acquiring resources in areas that were previously the other company's domain (Kumar & Mittal, 2022). With the explosion of e-commerce, Walmart wanted to establish itself in this practice in order to increase sales and be more efficient (Kumar & Mittal, 2022). The retailer's successful private-label brands included Equate, Great Value, Sam's Choice, and Freshness Guaranteed (Kumar & Mittal, 2022). Walmart also introduced Uniquely J, which provided quality ingredients at low prices with bold packaging to attract young customers (Kumar & Mittal, 2022). Walmart made several efforts to enhance its online grocery services, such as Walmart Pickup and Pickup Today, that enabled customers to place orders online and either pick them up at a store or have them delivered to their homes (Kumar & Mittal, 2022). To overcome the cost barrier of the last-mile delivery, the retailer utilized its store employees to deliver online orders (Kumar & Mittal, 2022). In 2017, Walmart acquired Parcel, a technology-driven company that provided speedy delivery. Walmart also offered a full refund for unsatisfactory produce (Kumar & Mittal, 2022). In 2020, Walmart introduced Walmart+, a membership-based program that provided free shipping on eligible items, fuel discounts, and mobile scan-and-go options (Kumar & Mittal, 2022). The Walmart mobile app gave shoppers access to the latest product information, a simplified return process, and customized voice shopping through Google (Kumar & Mittal, 2022). Perhaps, the share in total US Grocery Market in 2021 for Walmart is 21.6% (Kumar & Mittal, 2022). If we analyze the US Online Grocery Market, they are still at the first place with 32.1% (Kumar & Mittal, 2022). Walmart's expansion into the e-commerce market was aided by its acquisition of private brands such as Hayneedle, Moosejaw, ShoeBuy, Modcloth, and Bonobos, which helped the retailer expand its range of online apparel and accessories merchandise, a category in which it had struggled previously (Kumar & Mittal, 2022). Walmart also partnered with department store operator Lord & Taylor to offer their products on its website (Kumar & Mittal, 2022). They also introduced private brands such as Athletic Works, Time and Tru, Terra & Sky, Eloquii, Wonder Nation, and George (Kumar & Mittal, 2022). Walmart launched several online grocery services, including Walmart Pickup, which enabled customers to place their orders online and pick them up at a store, as well as Pickup Today, which allowed customers to pick up their online orders at a store within four hours at no additional cost (Kumar & Mittal, 2022). Walmart is in second position behind Amazon for the share in apparel and footwear market with 8.8% of share (Kumar & Mittal, 2022). By the way, if we analyze the online one, they have a 1.9% and they are behind companies as: Amazon, Macy's and Target (Kumar & Mittal, 2022). For the future, they should continue on the same line regarding grocery, trying to increasingly implement the services offered that can be advantageous for customers, who are now more and more favorable to getting their groceries at home at an advantageous price. However, the food market is one of the least profitable markets. They should focus on the online clothing market (as it is a market with good/high margins) trying to invest in brands that have sustainability as their principle at affordable prices. Through careful market research, perhaps also analyzing various competitors, they should identify current trends in order to better direct the offer of products to the public. With their motto «Always low prices, always», the strategy would be to carry out a "market penetration" in order to propose similar and alternative products to those of Amazon and selling them at

Amazon vs Walmart

lower prices. One way to lower costs in future could be to open a private label. The service offered, rather than the product itself, could make the difference. The clothing market has the highest return rate, with 88% of products being returned to the sender (Kumar & Mittal, 2022). To try to reduce this statistic, some strategies could be adopted. For example, in addition to the usual ones (more detailed feedback from customers, as much detailed information as possible about the product, size guide), they should invest in the technological service of virtual fitting, so that the customer can really understand how a piece of clothing may fit, provide the RAL scale for each color present so that, in the virtual fitting, the customer knows 100% which real colors they will see. A final suggestion could be to offer discounts and incentives if a product is not returned (or preference for any prizes). This can help reduce the return rate and improve customer loyalty.

Amazon's Omnichannel presence

Amazon aimed to establish a physical presence to offer customers a hands-on shopping experience, leading to the creation of various access points (Kumar & Mittal, 2022). Amazon invested in warehouse shipping and automated dark store picking to improve its logistics operations (Kumar & Mittal, 2022). The ship from warehouse model allowed for greater inventory and lower storage costs by utilizing no-frills warehouse space with cheaper rent in remote locations (Kumar & Mittal, 2022). Between 2015 and 2021, Amazon launched 24 bookstores in the US and introduced 87 pop-up stores and kiosks featuring Amazon hardware products (Kumar & Mittal, 2022). However, these initiatives failed to appeal to customers, prompting Amazon to discontinue them by 2022. In 2017, Amazon bought Whole Foods, a premium grocery chain with 470 stores, for \$13.7 billion (Kumar & Mittal, 2022). This acquisition allowed Amazon to increase its physical presence, acquire a reputable private label brand (365), and access valuable customer data to understand shoppers' grocery buying behavior (Kumar & Mittal, 2022). Amazon reduced the prices of select products at Whole Foods by 25-50% to attract customers from its competitors, made Whole Foods products available on its website, and included them in its Prime Now service (Kumar & Mittal, 2022). As a result, Amazon could offer customers a wide range of high-quality groceries, including organic and locally sourced products, at affordable prices and delivered fresh (Kumar & Mittal, 2022). Amazon also planned to use the parking lots of Whole Food stores to park its treasure trucks, offering merchandise that might interest Whole Food shoppers (Kumar & Mittal, 2022). Amazon introduced a revolutionary shopping experience in January 2018 with the opening of Amazon Go, an automated convenience store in Seattle where shoppers could walk-in, pick-up items and walk out without any checkout process (Kumar & Mittal, 2022). Using a combination of computer vision, sensor fusion and deep learning, customers' bills were tallied and charged to their Amazon account (Kumar & Mittal, 2022). While there were concerns about a lack of human interaction, Amazon believed that the convenience factor would eventually win over customers (Kumar & Mittal, 2022). In August 2020, Amazon launched its first physical supermarket, Amazon Fresh, which expanded to 29 stores in the US by April 2022 (Kumar & Mittal, 2022). Amazon Fresh offered a seamless omni-channel experience with the "just walk out" technology and a smart shopping cart called the Amazon Dash Cart (Kumar & Mittal, 2022). Additionally, Amazon planned to launch Amazon Style, its first physical store for apparel, in 2022, using machine learning algorithms to make real-time recommendations and allowing customers to request items to be sent to a fitting room via the Amazon app (Kumar & Mittal, 2022). As the data shows, it is true that they have "only" 2.4% of the total US Grocery market, but they have 28.9% in the online US grocery market (Kumar & Mittal, 2022). Once again, this emphasizes how they are more competitive as an e-commerce platform rather than a physical store.

Amazon vs Walmart**REFERENCES**

[Kumar, N., & Mittal, D. (2022). "AMAZON VS WALMART: CLASH OF BUSINESS MODELS". *Singapore Management University*, SMU-18-0013.]