

CASE STUDY

Walmart is the world's largest and most successful retailer, with \$483 billion in 2015 sales and more than 11,500 stores worldwide, including more than 4,600 in the United States. Walmart has 2.3 million employees and ranks number one on the *Fortune* 500 list of companies. Walmart had such a large and powerful selling machine that it really didn't have any serious competitors—until now.

Today Walmart's greatest threat is Amazon.com, often called the “Walmart of the Web.” Amazon sells not only books but just about everything else people want to buy—DVDs, video and music streaming downloads, software, video games, electronics, apparel, furniture, food, toys, and jewelry. The company also produces consumer electronics—notably the Amazon Kindle e-book reader, Kindle Fire tablet, Echo and Tap speakers, and Fire TV set-top box. No other online retailer can match Amazon's breadth of selection, low prices, and fast, reliable shipping. For many years, Amazon has been the world's largest e-commerce retailer with the world's largest and most powerful online selling machine. Moreover, Amazon has changed the habits and expectations of consumers in ways to which Walmart and other retailers must adapt. Instead of a “push” model, where merchandisers have a large degree of control of what items they stock and sell, retailers must adapt to a “pull” model, where shoppers are more empowered than ever. According to Brian Yarbrough, a retail analyst at Edward Jones in St. Louis, Amazon and online retailing is probably the biggest disrupter of retail since Walmart itself.

Walmart was founded as a traditional, offline, physical store in 1962, and that's still what it does best. But it is being forced to compete in e-commerce as well. Seven years ago, only one-fourth of all Walmart customers shopped at Amazon.com, according to data from researcher Kantar Retail. Today, however, half of Walmart customers say they've shopped at both retailers. Online competition and the profits to be reaped from e-commerce have become too important to ignore.

Walmart's traditional customers—who are primarily bargain hunters making less than \$50,000 per year—are becoming more comfortable using technology. More affluent customers who started shopping at Walmart during the recession are returning to Amazon as their finances improve. Amazon has

started stocking merchandise categories that Walmart traditionally sold, such as vacuum bags, diapers, and apparel, and its revenue is growing much faster than Walmart's. In 2015, Amazon had sales of more than \$113 billion.

If more people want to do even some of their shopping online, Amazon has some clear-cut advantages. Amazon has created a recognizable and highly successful brand in online retailing. The company has developed extensive warehousing facilities and an extremely efficient distribution network specifically designed for web shopping. Its premium shipping service, Amazon Prime, provides fast “free” two-day shipping at an affordable fixed annual subscription price (\$99 per year), often considered to be a weak point for online retailers. According to the *Wall Street Journal*, Amazon's shipping costs are lower than Walmart's, ranging from \$3 to \$4 per package, while Walmart's online shipping can run \$5 to \$7 per parcel. Walmart's massive supply chain needs to support more than 11,000 physical stores worldwide, which Amazon doesn't have to worry about. Shipping costs can make a big difference for a store like Walmart where popular purchases tend to be low-cost items like \$10 packs of underwear. It makes no sense for Walmart to create a duplicate supply chain for e-commerce.

However, Walmart is no pushover. It is an even larger and more recognizable brand than Amazon. Consumers associate Walmart with the lowest price, which Walmart has the flexibility to offer on any given item because of its size. The company can lose money selling a hot product at extremely low margins and expect to make money on the strength of the large quantities of other items it sells. Walmart also has a significant physical presence, and its stores provide the instant gratification of shopping, buying an item, and taking it home immediately as opposed to waiting when ordering from Amazon. Seventy percent of the U.S. population is within five miles of a Walmart store, according to company management.

Walmart has steadily increased its investment in its online business, spending between \$1.2 billion and \$1.5 billion annually in 2015 and the next few years on e-commerce, including fulfillment centers and technology. Walmart has constructed one of the world's largest private cloud computing centers, which provides the computing horsepower

for Walmart to increase the number of items available for sale on Walmart.com from 1 million three years ago to 10 million today. In the spring of 2015 the company opened four new fulfillment centers around the country, each of which is more than 1 million square feet. To further counter Amazon, Walmart introduced its own “free” two-day shipping program called Shipping Pass, similar to Amazon Prime but costing only \$49 per year.

New technology will also give Walmart more expertise in improving the product recommendations for web visitors to Walmart.com, using smartphones as a marketing channel, and personalizing the shopping experience. Walmart has been steadily adding new applications to its mobile and online shopping channels and is expanding its integration with social networks such as Pinterest.

A Pay With Cash program enables the 25 percent of Walmart customers who don't have credit cards or bank accounts to order their products online and then pay for them in cash at their nearest Walmart store. Walmart's online and digital development division @WalmartLabs acquired the recipe technology start-up Yumprint in order to expand its online grocery delivery services. Management hopes that Yumprint will help Walmart customers more easily make shopping lists from recipes they find in Yumprint before they shop.

Walmart is also trying to improve links between its store inventory, website, and mobile phone apps so that more customers can order online and pick up their purchases at stores. Shoppers can order items online and pick them up from lockers in local stores without waiting in line. Walmart's lockers are similar to Amazon's recent deal with Staples and 7-Eleven to do the same. The idea is to be able to offer Walmart products anywhere a consumer prefers to shop, whether that's online, in stores, or on the phone.

The company is rethinking its in-store experience to draw more people into its stores. More than half of Walmart customers own smartphones. Walmart has designed its mobile app to maximize Walmart's advantage over Amazon: its physical locations. About 140 million people visit a Walmart store each week. The company started testing the app's in-store mode, which detects when a customer is in a physical store. When the mode is activated, customers can check their wish lists, locate items of interest in the store, and see local promotions. The app's “Scan & Go” feature lets customers scan items as they shop so they can move quickly through self-checkout. Shoppers can add items to their lists using voice or by scanning bar codes.

The Walmart website uses software to monitor prices at competing retailers in real time and lower its online prices if necessary. The company is also doubling inventory sold from third-party retailers in its online marketplace and tracking patterns in search and social media data to help it select more trendy products. This strikes directly at Amazon's third-party marketplace, which accounts for a significant revenue stream for Amazon. Additionally, Walmart is expanding its online offerings to include upscale items like \$146 Nike sunglasses and wine refrigerators costing more than \$2,500 to attract customers who never set foot in a Walmart store. A new Product Content Collection System will facilitate vendors sending their product catalogs to Walmart, and the product information will then be available online.

Walmart's commitment to e-commerce is not designed to replicate Amazon's business model. Instead, CEO Doug McMillon is crafting a strategy that gives consumers the best of both worlds—what is called an omnichannel approach to retailing. Walmart's management believes the company's advantage is that it is not a pure-play e-commerce retailer and that customers want some real interaction with physical stores as well as digital. Walmart will sell vigorously through the web and also in its physical stores, retaining its hallmark everyday low prices and wide product assortment in both channels and using its large network of stores as distribution points. Walmart will closely integrate online shopping and fulfillment with its physical stores so that customers can shop however they want, whether it's ordering on their mobile phones for home delivery, through in-store pickup, or by wandering down the aisles of a Walmart superstore. Walmart is aiming to be the world's biggest omnichannel retailer.

Amazon is working on expanding its selection of goods to be as exhaustive as Walmart's. Amazon has allowed third-party sellers to sell goods through its website for a number of years, and it has dramatically expanded product selection via acquisitions such as its 2009 purchase of online shoe shopping site Zappos.com to give the company an edge in footwear. Amazon has been building its grocery offerings, with Amazon Prime, Prime Now, Prime Pantry, and Amazon Fresh offering delivery times as short as an hour in some cases. Amazon has opened a retail bookstore in Seattle and plans more in other U.S. locations. Customers will be able to use Amazon's Alexa voice-controlled digital assistant (built into the Echo and Tap speakers and Fire TV) to order tens of millions of products from Amazon's online store.

Amazon continues to build more fulfillment centers closer to urban centers and expand its same-day delivery services, and it has a supply chain optimized for online commerce that Walmart just can't match. It now has more than 100 warehouses from which to package and ship goods. Warehouses speed up Amazon's shipping, encouraging users to shop more at Amazon, and the cost of these centers as a portion of Amazon's operations is decreasing. Both Amazon and Walmart are experimenting with drones to accelerate fulfillment and delivery. But Walmart has thousands of stores, one in almost every neighborhood, which Amazon won't ever be able to replicate. The winner of this epic struggle will be which company leverages its advantage better. Walmart's technology initiative looks promising, but it still has work to do before its local stores are anything more than local stores. Can Walmart successfully move to an omnichannel strategy?

Sources: Julie Verhage, "One Wall Street Firm Says Amazon Is About to 'Feast' on the Food and Beverage Market," *Bloomberg Business*, March 17, 2016; Rachel Abrams, "Walmart Outperforms Estimates, but Online Retail Lags," *New York Times*, May 19, 2016; Sarah Nassauer and Loretta Chao, "Wal-Mart Expands Free

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