Case Study Who’s The World’s Top Retailer? (p116-118)

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Walmart and Amazon Duke It Out Walmart is the world’s largest and most successful retailer, with $476 billion in fiscal 2014 sales and nearly 11,000 stores world-wide, including over 4,000 in the United States. Walmart has 2 million employees, and ranks Number 1 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. No other retailer came close—until now. Today Walmart’s greatest threat is no other than 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. No other online retailer can match Amazon’s breadth of selection, low prices, and fast, reliable shipping. For many years, Amazon has been the leader in online retail and is now the world’s largest e-commerce retailer. It, too, has a very large and powerful selling machine, although it has primarily focused on selling through the Internet. But if Amazon has its way, that’s about to change, because it dearly wants to move in on Walmart’s turf. Walmart was founded as a traditional, off-line, physical store in 1962, and that’s still what it does best. But it is being forced to compete in e-commerce, whether it likes it or not. Six or 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 from Amazon has become too tough to ignore. Why is this happening to Walmart? There are two trends that threaten its dominance. First, 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 2013, Amazon had sales of nearly $67 billion, compared to online sales of about $9 billion for Walmart. 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–$7 per parcel. Walmart’s massive supply chain needs to support more than 4,000 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, with stores all across the United States, 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. Two-thirds 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 more than $300 million to acquire five tech firms, including Small Society, One Riot, Kosmix, and Grabble, while hiring more than 300 engineers and code writers. Other recent acquisitions include Torbit, OneOps, Tasty Labs, and Inkiru, that will help give Walmart more expertise in things like 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 The company’s technology team is working on an application called Endless Aisle, which would allow shoppers to immediately order from Walmart.com using their smartphones if an item is out of stock. 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 startup 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. The company also hired former eBay executive Jamie Iannone to manage the integration of Sam’s Club’s Website with Walmart’s global e-commerce unit. Walmart’s Sam’s Club has been testing a new subscription service called My Subscriptions that allows its 47 million members to order over 700 items, including baby, beauty, and office supplies in order to compete with Amazon’s Subscribe & Save program. Online customers will not need to pay shipping fees for these subscription items. Sam’s Club used to be unaffected by competitors like Amazon among shoppers of fresh food, groceries, and basic products that were either not sold on Amazon, or were more expensive online. Now 35-40 million households enrolled in Amazon Prime, and many Sam’s Club members tend to belong to Amazon Prime as well. Sam’s Club is starting to feel the pressure. Amazon is looking into starting a new business called “Pantry,” which would allow customers to purchase goods like toilet paper and cleaning supplies in bigger bundles for cheaper shipping costs. Walmart is also trying to improve links between its store inventory, Web site, 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 already offers in-store pick up of online orders.) 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 re-thinking 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 Web site 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. 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 Web site 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 Amazon an edge in footwear. On June 18, 2014, Amazon announced its own Fire Phone to provide a better mobile platform for selling its products and services online. Amazon’s smartphone has four cameras that can track faces to show images that appear to have depth similar to a hologram. Users are able to scroll through Web or book pages just by tilting the device or to quickly navigate menus, access shortcuts, and view notifications. Mayday is a 24-hour customer support service for users of Amazon’s devices, offering one-tap access to Amazon customer service agents who can talk to phone users via video chat, and take over the screen on their devices to show them exactly how to do something. Firefly is a tool that automatically recognizes through the camera over 100 million items, including merchandise, music, or television shows, then offers a way to buy them through Amazon’s online store. For example, a user could point the phone at a pair of running shoes and then order them immediately from Amazon.com. 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. But Walmart has thousands of stores, in almost every neighborhood that Amazon won’t ever be able to match. The winner of this epic struggle will be which company leverages its advantage better. Walmart’s technology initiative looks promising, but it still hasn’t succeeded in getting its local stores to be anything more than local stores. Still up in the air is the question of the relationship of online selling to Walmart’s overall business model. Should Walmart try to best Amazon as the world’s dominant e-commerce site? Or would it be better off using online selling to boost revenue for all of Walmart. Would more companywide profits be generated by having a modest online site and using technology to boost store profits?

Sources: Shelly Banjo, “Wal-Mart Looks to Grow by Embracing Smaller Stores, “Wall Street Journal, July 8, 2014; Greg Bensinger, “Amazon Unveils ‘Fire Phone’ Smartphone,” Wall Street Journal, June 18, 2014 and “Amazon Raises Prime Subscription Price To $99 A Year,” Wall Street Journal, March 13, 2014; Anna Rose Welch, “Walmart, Sam’s Club Amp Up Online Shopping Experiences, “Integrated Solutions for Retailers, February 28, 2014; Donna Tam, “Walmart: Amazon image recognition a ‘shiny object’,” CNET, February 6, 2014; Brian O’Keefe, “Walmart Plans to Be an Online Juggernaut,” Fortune, July 23, 2013; Claire Cain Miller and Stephanie Clifford, “To Catch Up, Walmart Moves to Amazon Turf,” New York Times, October 19, 2013; Claire Cain Miller, “Wall-Mart Introduces Lockers as It Battles Amazon in E-Commerce,” New York Times, March 27, 2013; Evan Schuman, “Amazon’s Supply Chain Kicking the SKUs Out of Walmart’s,” StorefrontBacktalk, June 19, 2013; and David Welch, “Walmart Is Worried About Amazon,” Business Week, March 29, 2012.