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Walmart vs Amazon: How Walmart can Compete with Amazon in the Age of E-Commerce

By

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Advisor: Dr. Craig Rennie

**An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of
Science in Business Administration in Finance**

Sam M. Walton College of Business

University of Arkansas

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Executive Summary

In the growing battle between the retail giants, Walmart, and Amazon, it has become clear that Walmart must take steps to secure their place in a market where a pandemic-driven technology enabled e-commerce industry is expected to grow leaps and bounds over the next several years. In order to compete with Amazon, who dominates the majority of e-commerce in the US, Walmart must identify core competencies that drive revenue and customer loyalty and adapt them to a new age of retail. By taking advantage of physical locations and access to customer data, Walmart may be able to continue to offer the lowest prices on the market. On the other hand, by diversifying what they offer to customers, Walmart may seek to create a complete ecosystem where Walmart stores are a “one stop shop” for consumers. All these must be done by Walmart to compete, while ensuring risks associated with such a large scope are addressed to remain loyal to their customer’s needs.

Introduction

The competition between Walmart and Amazon is stiff. Amazon has a majority hold on the e-commerce industry, which is projected to grow at a high rate in the coming years. Walmart on the other hand, continues to dominate the physical shopping experience.

This begs the question- How can Walmart, a company that dominates the physical space, known for its success in the supply chain, dominate Amazon, a company that has a diverse revenue stream and dominates the fastest growing retail space?

In my research, I found that Walmart has the means to compete with Amazon in the e-commerce space by effectively utilizing the stores and distribution centers it already owns. Walmart can also seek to create a complete ecosystem for the customer, creating a one-stop shopping experience for customers who choose to shop in physical locations. Information is also key, and Walmart can utilize its unique access to customer data from physical locations to predict shopping habits and other customer wants and needs to beat Amazon on an informational level.

It is imperative we understand how Walmart can compete, as the pandemic has spurred massive growth in e-commerce. Will Walmart be able to adapt to a changing customer base, and take advantage of their core competencies to beat Amazon, or will Walmart fail to maintain relevance, and fall to the wayside like Sears or other retailers of the past?

1. Revenue Streams

As might be expected from Walmart, grocery dominates its revenue stream, accounting for almost 56% of its revenue (Figure 1). This is followed by general merchandise and Health and Wellness, which includes Walmart's pharmacy and the like. It is important to note that the majority of these transactions are taking place in brick-and-mortar locations. Walmart only occupies 5.6% of the overall e-commerce transactions in the US, while Amazon "took in 51.2% of total U.S. digital retail sales [in 2020], up 48% from 2019" (PYMNTS).

Amazon may fall shortly behind Walmart in terms of overall retail sales-however they are catching up quickly. Using the latest available data, between fiscal year (FY) 2019 and FY 2020, Walmart increased retail sales share from 8.9% to 9.5%, while Amazon accelerated from a 6.8% share to a 9.2% share (Figure 2)

This data shows a clear trend that Amazon is taking up an increasing amount of retail sales, while also dominating the online retail presence. With E-Commerce as an industry expected to grow from a \$13 trillion market share in 2021, to \$55.6 trillion in by 2027 (Businesswire), Amazon is set up to far outpace Walmart in the coming years.

In order to combat Amazon's domination of the e-commerce market, Walmart must find a way to take advantage of their existing strengths, including their supply chain network, physical presence, and access to customer data.

Grocery accounts for over half of Walmart's annual revenue

Revenue by category, in billions, for fiscal year 2020.

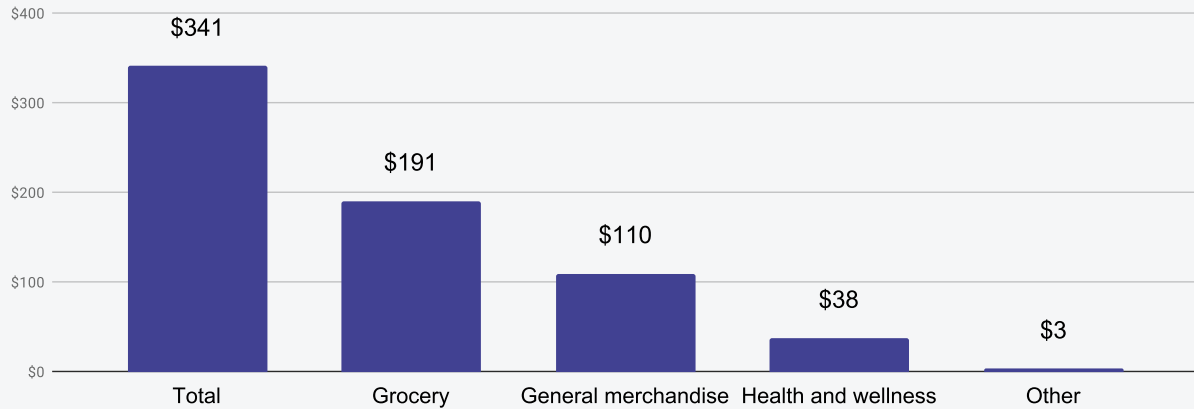


Figure 1

% Share of US Retail Sales

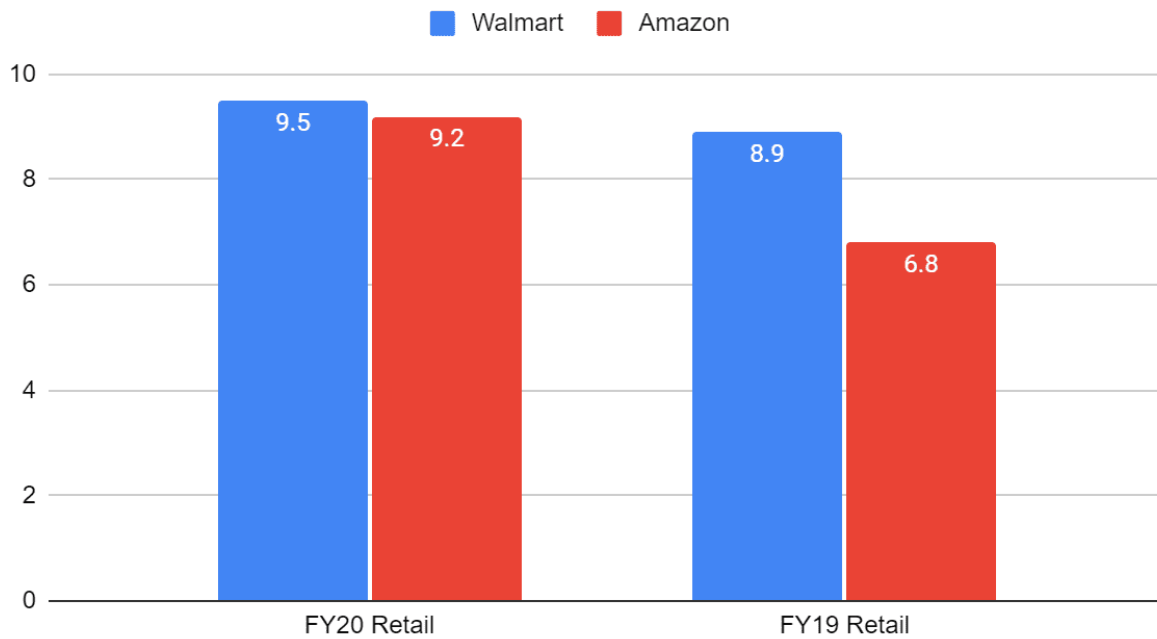


Figure 2

2. The Battle for Information

As said by Arthur Dong, a professor of strategy and economics at Georgetown University's McDonough School of Business, “you have to consider the fact that both [Walmart and Amazon] are huge data companies, and that we all know that the future of retail is the fact that you have information on all your consumers [and] what their buying preferences are”.

Tailoring the shopping experience to a customer's personal needs has become increasingly important in the age of e-commerce. Amazon has become quite effective at personalizing the online shopping experience. Every search you make tailors the results of the next, and over time this creates an even more efficient experience for the customer. Another key piece of knowledge the industry has gathered from consumer behavior is that a large block of online shoppers abandon their cart before checking out. A study by Baymard Institute found that almost 70% of online shoppers abandon their cart before checking out (Baymard). In diving further into the data collected, we can see that shoppers' top reasons for abandoning their cart include high extra costs, high delivery time, and a long/complicated checkout process. Amazon has taken measures to combat these issues that Walmart could stand to benefit from.

One action taken, for instance, is Amazon's eponymous one click ordering ability. With the implementation of this system, shoppers can complete in a transaction in one click, negating a long checkout process, and also cutting down the window in which a shopper has time to reconsider their purchase. The storage of credit card information in an Amazon account further reduces hassles for the customer, allowing for a quick, personalized experience. To compete with Amazon, it is imperative that Walmart take advantage of their “Walmart +” experience. If Walmart utilizes data gathered on in-store purchases and observes shopping habits, they can use this information to further personalize the online experience for the shopper.

Walmart's subscription-based service, Walmart +, is a direct point of competition with Amazon's own Prime subscription-based service. It is in the area of Walmart + that Walmart has most room to improve, and the best chance to compete with Amazon on a long-term basis. The Walmart + service is extremely useful to Walmart's continued success, both as a strong point of consistent revenue, and as a tool to build customer loyalty.

As a recurring revenue stream, Walmart + has only begun to take off. As of the end of 2021, Walmart + now has more than 32 million households to its name (CNBC). This is almost quadruple the subscribers as the start of 2021. The fact that so many have opted in despite limited scope compared to Amazon Prime in terms of benefits received is quite interesting (Figure 3). Amazon offers music and video streaming as part of the Prime subscription, and only for a marginal cost increase. Prime falls at \$139 per year, while Walmart + comes in at \$98 per year. Even more interesting, Deutsche Bank found that “about 86% of current Walmart + subscribers have Amazon Prime” (CNBC). This overlap in customers goes to show that perhaps shoppers don't see Walmart + and Prime as mutually exclusive choices, but perhaps two services that could complement each other.

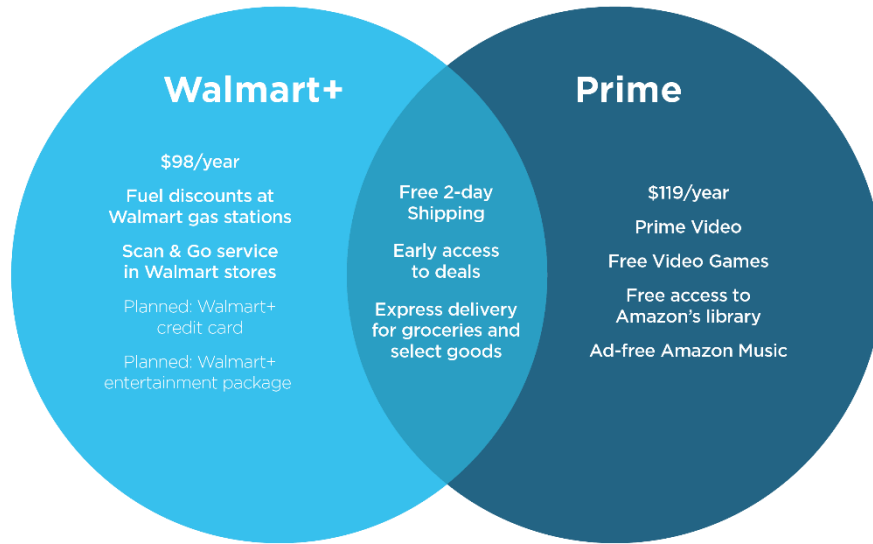


Figure 3

To capitalize on this, Walmart should continue to expand the benefits received through Walmart +. Currently Walmart + members receive “member prices on fuel. This expansion of benefits is exactly what Walmart should continue to pursue in order to retain and build on the subscriber base. Walmart’s ventures into diversification may also coincide with the ability to expand Walmart +. For example, Walmart’s tests in offering a “Walmart Health Center” among others may be a chance to offer savings to those who are Walmart + subscribers. Even more, Walmart could gatekeep some of these services behind a Walmart + membership. To put it in the words of Walmart CEO Doug McMillon, Walmart is building a “customer focused business model”, with the goal of Walmart being a consumers one stop shop for anything they might need.

3. Creating an “Interrelated Ecosystem”

To create a sustainable model for growth, Walmart must fight to stay relevant despite Amazon’s dominance of the e-commerce space. This is why it has been management’s goal to expand beyond just the brick-and-mortar grocery experience. Within the last couple of years, Walmart has been in the beginning stages of offering its own financial services. By acquiring two fintech startups, Walmart has the goal of offering its customers the ability to save and invest, most importantly to those who otherwise do not own a bank account. Couple the financial services with the current Walmart + benefits, including grocery and merchandise delivery, gas savings, and pharmacy benefits, and one might see how Walmart stands to compete with Amazon.

While Amazon occupies the digital space by a large margin, Walmart continues to dominate the physical store experience, while maintaining solid footing in e-commerce (Figure 4). Amazon’s physical stores accounted for only 4.2% of total sales (Retail Dive). This data confirms that customers still prefer Walmart as a physical shopping experience. While Walmart retains customer loyalty, it must expand beyond the typical needs such as grocery in order to continue to retain customers as they shift towards e-commerce.

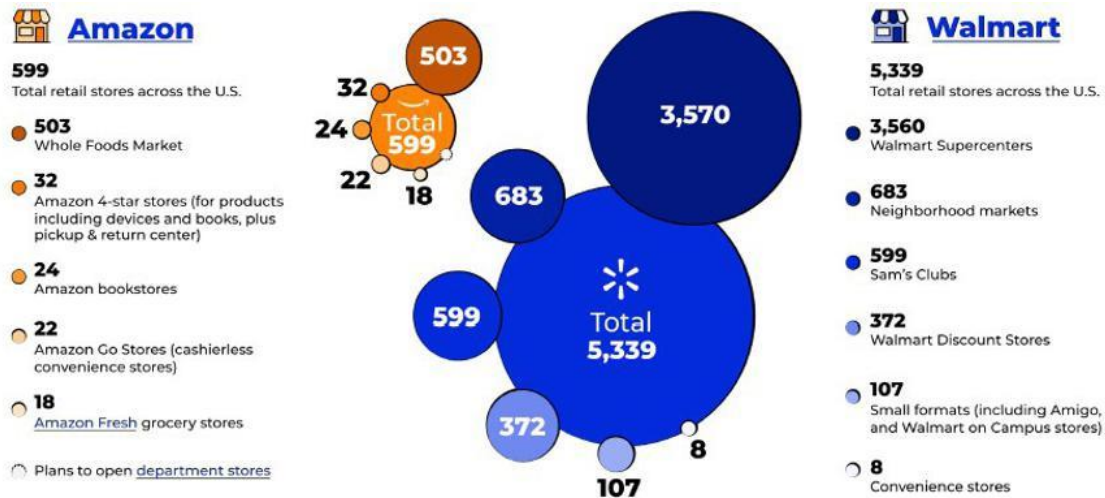


Figure 4

This expansion comes in two parts, the first being the aforementioned interrelated ecosystem, whereby Walmart seeks to offer a one-stop-shop experience for the customer. The second opportunity for expansion in the long-term is to capitalize on Walmart’s successful supply chain network. Since the foundation of Walmart, it is widely known that they succeeded on a large scale due to their unique approach to distribution centers and inventory turnover, as well as vendor managed inventory (VMI). While e-commerce will shift the market into the virtual world, inventory and the supply chain will always be a physical process. If Walmart can utilize store and warehouse space effectively, they have the capacity to expand delivery operations as demand moves to shipping. As more customers order groceries to their doorstep,

Walmart can move to transform existing stores into warehouses that facilitate delivery. This has already been done in part as the pandemic drove sales online (NY Post).

Undertaking a massive strategy change such as these comes at increased risk, particularly relating to scope creep. As these projects become larger, and Walmart seeks to create a large ecosystem for the consumer, it must be careful to not spread resources too thin.

While creating the interrelated ecosystem has the potential to secure future revenue streams for Walmart, there are risks associated with such high diversification as Walmart has planned. As previously mentioned, scope creep poses significant risk to Walmart's strategies. Already, there are conflicting missions when it comes to physical stores. One strategy has been to turn physical stores into a one-stop-shop location for customers. A store could offer groceries, general merchandise, pharmacy services, veterinary services, financial services, gas, and much more. On the other hand, the other strategy has been to convert stores into warehouses from which electronic orders can be processed, and deliveries be picked up. Careful selection of what strategy Walmart pursues for each of its locations will be vital to its long-term success.

In fact, purely trying to replicate Amazon's strategy may not be how Walmart gains a competitive edge. A study published in the *Journal of Business Research* demonstrated that "focusing on quicker delivery is not the best strategy for offline retailers when opening online channels to compete with online retailers" (Jindal, et al.). Instead, they argue using customer survey data, that Walmart should focus on delivering their already successful strategy to online customers. This includes "larger assortment [of goods], competitive prices, and purchase convenience" (Jindal, et al.). Walmart should pursue this strategy in order to differentiate themselves from Amazon, while retaining their already successful strategy, and making it available to more customers.

One upside to converting stores into warehouses may be employee efficiency and satisfaction. As many as 89% of Walmart stores may be understaffed at any given time (Business Insider). Stores that are understaffed pull employees from customer facing jobs like the register to help with more vital roles. If some stores are converted to warehouses, those locations no longer have to worry about customer-focused problems like finding items, cleaning, and customer service jobs including returns and the registers. These employees would be allowed to focus purely on stocking and carrying out operations, while eliminating the negative job satisfaction that may arise from rude or unruly customers. This change would decrease the already present risk of asking employees to have too many jobs. If employees are able to specialize in inventory management over customer service, it would reduce the risk of scope creep on the employee level. On the corporate level, management can cut costs on customer service tasks and outsource those duties to a central location that can specialize in customer service. By simplifying the duties of employees, it will become clear to management what areas need improvement, as well as judging profitability of certain locations and their operations.

Conclusion

Walmart faces an ever-increasing threat from Amazon as e-commerce grows. The market is projected to grow rapidly in the next decade, and steps must be taken to ensure a sustained competitive advantage over Amazon. This can be done through expanding Walmart's core competencies to their online offerings. Among those is the ability to offer a large variety of products at the lowest prices to consumers. If Walmart is able to provide this to the customer, they will be able to build a strong footing in the e-commerce industry and build more customer loyalty. As far as utilizing the current physical stores, Walmart should continue to convert strategic store locations into warehouses that facilitate delivery of online orders. Other stores in prime demographic areas should expand their services beyond simply grocery and merchandise. This would include the financial and health services Walmart already plans to undertake. Overall, this will help retain customers who might otherwise turn to competitors, because Walmart will focus on becoming a one-stop-shop for the customer. While there are risks associated with diversifying so heavily, Walmart has the resources to ensure success assuming employee buy-in and adequate strategic planning.

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