CHAPTER 10 E-COMMERCE: DIGITAL MARKETS, DIGITAL GOODS

CASE 1 Walmart Takes On Amazon: A Battle of IT and Management Systems

(a) How Wal-Mart is moving the needle on e-commerce

URL https://www.youtube.com/watch?v=mLGt_GPyPFU; L=18:59

(b) Wal-Mart To Acquire Jet.com For $3.3B

URL 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 U.S., and the world. But it has lacked a powerful online presence. Amazon brings to the fray the largest online retail presence in the United States, and is second only to Alibaba in China. But Amazon lacks a physical footprint in retail commerce. Walmart is moving towards an omnichannel 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.

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, Macys, Kohls, Sears, and Nordstrom all have reported about 1% to 2% sales growth since the recession of 2008. In 2016, Target, Macys, Sears, JCPenny, and others are closing hundreds of stores. Since 2000, consumers have been shifting away from traditional retail goods like apparel and electronics

continued

(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 (about 25% of all online retail), and has been growing at astounding rates like 15% to 20% a year 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 over a billion dollars in the last decade trying to become online retailers, and meet consumers wherever they want to buy, online, or at the store. It's called an "omnichannel" strategy: using multiple channels like physical stores and online Web and mobile apps to sell products. Many traditional large retailers such as Walmart, Macys, and Costco, have wound up in the top ten online retail rankings. But so far the omnichannel 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 which 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 omnichannel model versus the pure-online digital model of Amazon.

Here's how the two heavy weights shape up. Walmart's revenues in 2015 were $485.6 billion (the largest Fortune 500 company), it had earnings of $15 billion (about a 3% margin) , and e-commerce sales of 13.7 billion (around 3% of total sales revenue). Walmart has about 5,200 stores of all kinds in the U.S. It produces around $15 billion in free cash flow a year, and has about $9 billion cash on hand. In 2016 Walmart's market value is in the area of $230 billion. It's sales growth in 2015 was 1.8%. Walmart employs about 2.1 million people (1.4 million in the U.S. alone), making it the largest employer in the world and the U.S. That works out to $231,000 of revenue for each employee.

Amazon's revenues in 2015 were $107 billion (the largest e-commerce company, but only 35 in the Fortune 500), it had earnings of $596 million (about a 1.8% margin), and e-commerce sales of $92 billion. Amazon has about $8 billion in cash on hand. In 2016 Amazon's market value is about $366 billion, and its sales growth in 2015 was about 20%. Amazon employs about 222 million people. That works out to $481,000 of revenue for each employee.

The retail battle of the decade shapes up as a contest between a giant traditional retailer that is growing very slowly, and has only a tiny online presence, versus the largest online retailer which is growing very rapidly, and has no physical store presence. Both companies have significant financial assets, and nearly limitless credit, to build or acquire whatever capabilities they choose. Walmart needs to develop new systems and capabilities both

continued

in-house, and through acquisitions. In 2016 Walmart bought the start up Jet.com, and small but fast-growing Amazon competitor.

Videos 1 and Video 2 describe Walmart's senior management strategy for developing a competitive online presence. The outcome will in part be determined by how well Walmart can develop a competitive logistics system to compete with Amazon.

The Instructional Videos for this chapter describe how both Walmart and Amazon are developing their fulfillment systems, and their plans to compete on delivery and fulfillment.

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?