Walmart versus Amazon: The Battle for Online Dominance

Walmart.com's CEO, Neill Ashe, announced in early 2013 that the online division of Walmart stores was on pace to reach its goal of $9 billion in revenue in its 2014 fiscal year (February 2013 through January 2014).[1] In addition, Ashe noted that, after extensive website overhauls to improve search functionality and overall user experience, website traffic had increased 20 percent over the previous year, with over one-third of all visits coming from mobile devices. Ashe told reporters at Walmart.com's media event that he felt that Walmart.com was demonstrating its ability to match any other e-commerce company. By combining its online capability with its massive retail operations, Ashe said Walmart was poised to "provide a commerce experience no one else can provide."[2]

Ashe's positive outlook obscured the long difficulties Walmart.com had experienced trying to compete with Amazon.com, the largest Internet retailer in the United States, and the uphill battle Walmart.com still faced. Even with revenue of $9 billion,[3] Walmart.com was far behind Amazon's $74 billion, suggesting that considerable growth would be needed if the company was to match Amazon's online sales of products that fell into Walmart's traditional sales categories. Company executives and the e-commerce branch had not always seen eye-to-eye regarding the importance of investing in online capabilities. The result was that Walmart.com did not receive the necessary funds to invest in state-of-the-art website design or online fulfillment systems during several years of its early history.

With Walmart.com still behind Amazon, Mike Duke, CEO of Walmart Stores, had grown increasingly concerned that his company might have ramped up its efforts in online retail too late and would have to continually play catch-up with Amazon. In 2010, Walmart headquarters made new commitments to transforming its site in terms of navigability, search, and overall customer experience to take advantage of continuing ecommerce growth.[4] Despite this, by 2013, Walmart.com accounted for just about 1.7 percent of total company sales.[5] In the midst of these challenges and opportunities, Duke wondered what it would take for Walmart to finally participate in e-commerce revenues at a rate more consistent with its dominant retail store presence, and in particular, just how he could finally beat Amazon.

Walmart's History

Walmart grew from humble beginnings as a country discount store in Rogers, Arkansas, in 1962 to the world's second largest public corporation.[6] Sam Walton, the company's founder, envisioned a retail store that offered low prices and great service. Focused on offering the "lowest prices anytime, anywhere," the company grew rapidly. By 1972, Walmart was listed on the New York Stock Exchange, and its 51 stores recorded sales of $78 million.[7] It reached $1 billion in sales in 1980, making it the fastest company to ever do so at the time.[8] In 1983, the company opened its first Sam's Club, a wholesale retail store, and installed a computer system

EXHIBIT 1 Storewide Key Financials—Walmart, 2009-2013 ($ million)

	2009	2010	2011	2012	2013
Revenues	401,204	408,214	418,952	446,950	469,162
Net income	13,400	14,335	16,389	15,699	16,999
Total assets	163,429	170,706	180,663	193,406	203,105
Total liabilities	98,144	99,957	109,416	117,241	121,367
Employees	2,095,000	2,100,000	2,100,000	2,200,000	2,200,000

Source: MARKETLINE.

that brought additional cost savings by allowing stores to communicate product and inventory needs in real-time via the company's private satellite system, the largest in the U.S.[9]

The first Walmart Supercenter, which combined general retail operations with a full-scale supermarket, opened its doors in 1988.[10] Walmart became the largest retailer in the United States in 1990 and expanded internationally in 1991, with its first stores outside the United States located in Mexico. The 1990s were full of milestones as Walmart recorded its first $1 billion sales week (1992); expanded into Canada (1994), China (1996), and the UK (1999); and celebrated its first $100 billion sales year in 1997.[11] In 2002, Walmart reached another milestone, topping the Fortune 500 list for the first time[12] (see **Exhibit 1** for Walmart financials).

Initially, the company grew rapidly by increasing its number of retail locations worldwide. Walmart first introduced online shopping to customers via Walmart.com in 1996. Early versions of the website were slow and unattractive, and initial attempts at establishing market dominance online resulted in embarrassing failures. During the second half of the 1990s, companies such as online-bookseller Amazon continued to expand into the Internet retailing market.

Amazon's Backstory

Amazon founder Jeff Bezos started his business by packing and shipping book orders out of his garage in 1995. The Internet, he believed, offered an ideal medium for delivering lower prices and better title selection to customers. Within two months of its launch, Amazon sales topped $20,000 a week.[13] Amazon grew rapidly, went public in 1997, and began selling CDs and movies online. It was around 1999 that Amazon began morphing into the online retailer it is today. Bezos wanted Amazon to become the "Everything Store,"[14] allowing customers to buy anything they wanted at the lowest prices and from the convenience of their own homes. After successfully transitioning from selling only books to general retailing, Amazon continued to grow its customer offerings and business. By 2013, Amazon had reached over $74 billion in revenue[15] (see **Exhibit 2** for Amazon financials).

EXHIBIT 2 Storewide Key Financials—Amazon, 2008–2012 ($ million)

	2008	2009	2010	2011	2012
Revenues	19,166	24,509	34,204	48,077	61,093
Net income	645	902	1,152	631	389
Total assets	8,314	13,813	18,797	25,278	32,555
Total liabilities	5,642	8,556	11,933	17,521	24,363
Employees	20,700	24,300	33,700	56,200	88,400

Source: MARKETLINE.

Two Very Different Business Models

Historically, Walmart and Amazon had very different business models. Walmart grew by employing a low-cost leadership strategy in brick-and-mortar stores. Amazon relied on an e-commerce-based model to drive its meteoric growth. A closer look at each business reveals important differences in each company's respective strengths.

Walmart's Principles of Retail

Walmart had risen to world dominance by relying on the simple principles of retail: buy and sell at low prices, enjoying thin profits margins but high sales volume. Although most retailers follow these basic rules of thumb, Walmart expanded volume further by passing much of the cost savings onto the end consumer through lower prices. By pricing low and driving volume, Walmart successfully pushed its competitors onto the sidelines by pricing everyday products lower than anyone else.

In order to offer the lowest prices possible, Walmart worked hard to drive down its supply costs by negotiating lower prices from suppliers and reducing logistical expenses. As Walmart increased its stores, its bargaining power with suppliers increased. Eventually, Walmart became so large that the company was able to demand price concessions from suppliers who had come to rely heavily on Walmart's business.

Walmart also managed its logistics effectively. Shipping products from the manufacturers to the retail store can be a logistical challenge and, if managed poorly, could lead to higher costs. To address this, Walmart built regional distribution centers that stocked almost every item sold in its stores. Trucks then hauled products from the warehouses to the local stores. This distribution model resulted in inventory cost savings because products were pooled in regional superwarehouses and shipped more quickly to stores than if products were coming from a central distribution center.

With its successful retail model, Walmart successfully and substantially increased demand for the products on the shelves and drove the company to record-breaking growth over a half century.

Amazon and E-commerce

Unlike Walmart, which relied on brick-and-mortar stores, Amazon focused on an e-commerce business model in bookselling to launch its business. Without physical stores, online retailers eliminated the many costs typical retail operations incurred, including the construction and maintenance of stores or leases for store locations. Additionally, selling products over the Internet from central warehouse locations required a much smaller workforce to fulfill orders, giving Amazon and other online retailers an advantage over traditional retailers.

Amazon's initial business model wreaked havoc on the bricks-and-mortar bookselling industry. Lower fixed costs allowed the company to pass cost savings onto its customers, which quickly led to increased market share. The Amazon model also allowed for a much greater selection of books than was available in typical stores. Instead of being limited to the titles stocked at a Barnes & Noble bookstore, Amazon customers had access to virtually any book published and carried by wholesale book distributors. After tackling books as a product category, Amazon extended its commerce into dozens of other categories.

The Battle for Online Dominance

Walmart and Amazon had both risen to prominence in their respective spheres. As the companies continued to expand into overlapping areas, they began to see each other as relevant competitors. By the year 2000, Walmart had mastered the business of brick-and-mortar retail,