Amazon vs. Walmart: Which Giant Will Dominate E-commerce?

CASE STUDY

Since arriving on the dot-com scene in 1995, Amazon.com has grown from a small online bookseller to one of the largest retailing companies in the world, and easily the largest e-commerce retailer. The company has come a long way from its roots as a small Internet start-up selling books online. In addition to books, Amazon now sells millions of new, used, and collectible items in categories such as apparel and accessories, electronics, computers, kitchen and housewares, music, DVDs, videos, cameras, office products, toys and baby items, computers, software, travel services, sporting goods, jewelry, and watches. In 2010, sales of electronics and general merchandise comprised the majority of Amazon's sales for the first time.

Amazon.com would like to be "The Walmart of the Web," and it is indeed the Internet's top retailer. But in 2010, another firm emerged as a serious challenger for the title of 'Walmart of the Web': Walmart. Though Walmart is a latecomer to the world of e-commerce, the world's largest retailer appears to have its sights set on Amazon and is ready to battle it out for online e-tailing supremacy.

In contrast with Amazon, Walmart was founded as a traditional, off-line, physical store in 1962, and has grown from a single general store managed by founder Sam Walton to the largest retailer in the world with nearly 8,000 stores worldwide.

Based in Bentonville, Arkansas, Walmart made $405 billion in sales last year, which is about 20 times as much as Amazon. In fact, based on current size alone, the battle between Walmart and Amazon is far from a clash of two similarly powerful titans. Walmart is clearly the bigger and stronger of the two, and for the time being, Amazon is not a big threat to Walmart as a whole.

Amazon, however, is not an easy target. The company has created a recognizable and highly successful brand in online retailing as a mass-market, low-price, high-volume online superstore. It has developed extensive warehousing facilities and an extremely efficient distribution network specifically designed for Web shopping. Its premium shipping service, Amazon Prime, provides "free" two-day shipping at an affordable price (currently only $79 per year), often considered to be a weak point for online retailers. Even without Amazon Prime, designated Super Saver items totaling at least $25.00 ship for free.

Amazon's technology platform is massive and powerful enough to support not only sales of its own items but also those of third-party small and large businesses, which integrate their products into Amazon's Web site and use its order entry and payment systems to process their own sales. (Amazon does not own these products, and shipping is handled by the third party, with Amazon collecting 10-20 percent on the sale). This enables Amazon to offer an even wider array of products than it could carry on its own while keeping inventory costs low and increasing revenue. Amazon has further expanded its product selection via acquisitions such as the 2009 purchase of online shoe shopping site Zappos.com, which earned $1 billion in retail sales in 2008 and gave the company an edge in footwear.

In the third quarter of 2009, when retail sales dipped 4 percent across the board, Amazon's sales increased by 24 percent. Its sales of electronics and general merchandise, which is the most prominent area of competition between Amazon and Walmart, were up 44 percent. And e-commerce is expected to become an increasingly large portion of total retail sales. Some estimates indicate that e-commerce could account for 15 to 20 percent of total retail in the United States within the next decade, as more and more shoppers opt to avoid the hassle of shopping at a physical location in favor of shopping online. If this happens, Amazon is in the best position to benefit. In the meantime, e-commerce has not suffered as much from the recession and is recovering more quickly than traditional retail, giving Walmart more reason for concern.

However, Walmart also brings a strong hand to the table. 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 and ability to keep overhead costs to a minimum. Walmart 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. It also has a legendary continuous inventory replenishment system that starts restocking merchandise as soon as an item reaches the checkout counter. Walmart's efficiency, flexibility, and ability to fine-tune its inventory to carry exactly what customers want have been enduring sources of competitive advantage. Walmart also has a significant physical presence, with stores all across the United States and in many other countries, 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.

Walmart believes Amazon's Achilles' heel is the costs and delays of shipping online purchases to buyers. Customers who buy some of the more than 1.5 million products on Walmart.com can have them shipped free to a local Walmart, and pick up their purchases at these stores. Internet shoppers may be tempted to pick up other items once they are inside the store. New service desks at the front of some stores make it even easier for shoppers to retrieve their purchases. A Walmart on the outskirts of Chicago is testing a drive-through window, similar to those found at pharmacies and fast-food restaurants, where shoppers can pick up their Internet orders.

In late 2009, Walmart.com began aggressively lowering prices on a wide variety of popular items, making sure in each instance to undercut Amazon's price. The types of items Walmart discounted included books, DVDs, other electronics, and toys. The message was clear: Walmart is not going down without a fight in e-commerce. And Walmart.com executive Raul Vazquez echoed the same thought, saying that Walmart will adjust its prices "as low as we need to" to be the "low-cost leader" on the Web. In other words, the two companies are now locked in a price war, and both sites are determined to win.

The most high profile area where the two companies have done battle is in online book sales. Amazon's Kindle e-book reader may have started the conflict by offering the most popular books in e-book format for just $9.99. Though many publishers have since balked at allowing their books to be sold in the e-book format for that price, the battle has raged on in traditional formats. Several high-profile book releases, such as Stephen King's newest novel, *Under the Dome*, illustrated just how low both companies are willing to go. Walmart lowered its price for the novel to just $10, claiming that it wasn't in response to the $9.99 e-book price. Amazon matched that price shortly thereafter. In response, Walmart dropped the price to $9.00 a few days later. The book's retail cover price is $35 dollars, and its wholesale price is about $17. This means that both retailers are losing at least $7 on every copy of *Under the Dome* that they sell at that price.

Walmart sees its massive price cuts as a way to gain market share quickly as they enter the online bookselling marketplace at a time when e-book readers and Apple iPhones and iPads make the e-book format popular. Amazon has demonstrated that in the short term it is more than capable of competing with Walmart on price. As of this case's writing, Amazon had raised its price on the *Under the Dome* back up to $17. Walmart's price, of course, was $16.99. The two sites have had similar clashes over many high-profile books, like J.K. Rowling's *Harry Potter and the Half-Blood Prince* and James Patterson's *I, Alex Cross*, the latter selling for $13.00 on Amazon and $12.99 on Walmart.com as of this writing.

The feud between the two sites has spilled over into other types of merchandise. Amazon and Walmart.com have competed over Xbox 360 consoles, popular DVD releases, and other big-ticket electronics. Even popular toys like the perennial top seller Easy-Bake Oven have been caught up in the fray. With the 2009 holiday shopping season in full swing, Walmart dropped its price for the toy from $28 to just $17. Amazon slashed its price to $18 on the very same day.

Amazon claims it doesn't see shipping as a weakness. According to Amazon spokesperson Craig Berman, "Shopping on Amazon means you don't have to fight the crowds. We bring the items to your doorstep. You don't have to fight through traffic or find a parking space." Moreover, Amazon has taken steps recently to speed delivery times. In October, it began offering same-day delivery in seven U.S. cities, at an extra cost to shoppers. By working with carriers and improving its own internal systems, Amazon also started offering second-day deliveries on Saturdays, shaving two days off some orders. And Amazon continues to expand its selection of goods to be as exhaustive as Walmart's. In November 2010, Walmart introduced free shipping for all online orders.

Amazon founder and CEO Jeff Bezos is fond of describing the U.S. retail market as having "room for many winners." Will this hold true for Walmart and Amazon going forward? Walmart remains unchallenged among traditional physical retailers, but will it topple Amazon on the Web? Or will Amazon continue to be the "Walmart" of online retailers? Alternatively, will Walmart end up enlarging the online retail market space, helping Amazon grow in the process?

Sources: Kelly Evans, "How America Now Shops: Online Stores, Dollar Retailers (Watch Out Walmart)," *The Wall Street Journal*, March 23, 2010; Brad Stone, "The Fight Over Who Sets Prices at the Online Mall," *The New York Times*, February 8, 2010; Paul Sharma, "The Music Battle, Replayed with Books," *The Wall Street Journal*, November 24, 2009; Martin Peers, "Rivals Explore Amazon's Territory," *The Wall Street Journal*, January 7, 2010; "Is Wal-Mart Gaining on Amazon.com?" *The Wall Street Journal*, reprinted on MSN Money, December 18, 2009; "Amazon Steps Into Zappos' Shoes," *eMarketer*, July 24, 2009; Brad Stone, "Can Amazon Be the Wal-Mart of the Web?" *The New York Times*, September 20, 2009; and Brad Stone and Stephanie Rosenbloom, "Price War Brews Between Amazon and Wal-Mart," *The New York Times*, November 24, 2009.

CASE STUDY QUESTIONS

1. What concepts in the chapter are illustrated in this case?
2. Analyze Amazon and Walmart.com using the value chain and competitive forces models.
3. What are the management, organization, and technology factors that have contributed to the success of both Wal-Mart and Amazon?
4. Compare Wal-Mart's and Amazon's e-commerce business models. Which is stronger? Explain your answer.
5. Where would you prefer to make your Internet purchases? Amazon or Walmart.com? Why?