Teaching Note:

Amazon vs. Wal-Mart: The Retail Price Wars

This teaching note was written by Syeda Tahera Sadia, under the direction of Debpratim Purkayastha, IBS Hyderabad.
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ABSTRACT

This case discusses the innovative pricing strategies adopted by Wal-Mart with a special focus on the pickup discounts option, in its price war against other online retail marketplaces, especially Amazon.com (Amazon). Wal-Mart had been developing several strategies in its price war with American e-commerce and cloud computing company, Amazon, to not only retain the position of the top retailer in the US but also to become the topmost online retail business as well. In one such move against Amazon, Wal-Mart announced that starting April 19, 2017, it would offer discounts on 10,000 online-only products on walmart.com, provided the shopper opted to pick up the ordered items from a Wal-Mart retail store rather than having them shipped to his/her address. Wal-Mart also promised that the discounts would be extended to more than 1 million items by the end of June 2017. However, this discount was not applicable to the items available in the physical stores of Wal-Mart and on Wal-Mart’s third-party marketplace.

The case explores the multiple dimensions of the pickup discount and other pricing strategies like “Pick and Mix Pricing” of Walmart.com and their impact on the company and its competitors, particularly Amazon. It analyzes the several cost-cutting strategies adopted by Wal-Mart to offer its products at the lowest price possible to customers. The case also discusses how Wal-Mart with the help of its newly acquired niche e-commerce firms, plans to come up with newer strategies which will help the parent company to leverage its well-established physical retail outlets to increase its online sales. A part of the case also explores the various steps taken by Wal-Mart in its ‘omni-channel management’. The case facilitates a critical discussion on whether all these pricing decisions are sound enough for Wal-Mart to compete with Amazon and to become the market leader in online retail business. The case also discusses how Amazon had been increasing its presence on the brick-and-mortar retail space, intensifying the retail wars.

POTENTIAL AUDIENCE

The case is intended for use at the MBA level. It could be used as a part of the Pricing Decisions/Channel Decisions/Developing Marketing Strategies course of the subject, “Marketing Management,” as per the requirement of the faculty. It can also be used in the Strategic Management curriculum to teach Competitive Strategy and Competition.

COURSE USE

The case can primarily be used to support the “Pricing Decisions” concepts as it clearly explains how important pricing decisions are for a company by making a reference to Walmart’s strategies designed specially to compete with Amazon. Under “Pricing Decisions”, this case is best suited to support topics like, ‘Pricing objective’, ‘Changing pricing environment’ and many others. It could also be used to discuss “Channel Decisions” as it describes in detail how Walmart and Amazon managed their online channels efficiently so as to bring down the cost. The case also supports discussion on ‘Omni-Channel Management’. A part of the case could also be used for the topic
“Developing Market Strategies,” as per the requirement of the instructor, as the case explains how Amazon and Walmart were vying with each other to come up with strategies to compete with one another.

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**LEARNING OBJECTIVES**

The case has been prepared in such a way as to assist the students in understanding the following issues:

- Changing ‘Pricing Environment’ of today, primarily due to the internet’s influence
- ‘Maximizing Market Share’ as a Pricing objective
- The concept of Value Pricing with special reference to ‘Every-Day Low Pricing’ (EDLP)
- Merits and demerits of Price Cuts
- Examining the Price-Adaptation strategy of ‘Price Discounts and Allowances’

**TEACHING GUIDELINES**

This case is most suitable for a classroom discussion. The case moderator can initiate the discussion by asking the students to name a few major retail outlets in the US. Since Wal-Mart is the most famous of all such companies, students will definitely mention its name. So, when the students name Wal-Mart, the moderator can take that opportunity to explain why it is called a “Retail-giant”. The understanding of this case can be made easy for the students if they are given a brief scenario of the retail business, its entry barriers, pricing, challenges and competition, etc. This will help the students understand the business environment in which retail companies operate. The moderator could then move on to discuss the online retail stores or marketplaces, how they emerged over the years, their business environment, benefits, and challenges. After this, the teacher could direct the discussion toward how there has been increasing rivalry among the retail companies operating through different channels and gradually move toward discussing how this has led these companies to focus on pricing strategies to compete with each other.

Once the students are made aware of the general market conditions and competition among retail stores operating in multiple channels, the moderator should try to drive the discussion toward the Wal-Mart-Amazon rivalry by discussing the details mentioned in the case. The case teacher can then explain how Wal-Mart entered the online retail business quite late, which in turn made it lose the online market leader position to Amazon. The teacher can then involve the students in a discussion comparing the multiple strategies and areas of focus of both Amazon and Wal-Mart. This would help them in analyzing the competition between the two companies and also in understanding why this is so important (as their activities and decisions affect all the other retailers in the US market).
Once the students are well informed about the competition in the retail business, especially online, the teacher should discuss the important role played by ‘Pricing’ in the retail business and how Wal-Mart and Amazon are competing with each other to sell products at the lowest price possible to the customers. The discussion could be directed toward the ‘Pickup discounts’ strategy adopted by Wal-Mart and how it would help the company in combating Amazon. Once this is done, the moderator could also discuss the several other cost-cutting strategies adopted by Wal-Mart in its price war against Amazon. The students should also discuss the counter-strategies of Amazon in this price-battle.

This stage would be the most appropriate time for the students to understand how the retail business has changed over the years, mainly focusing on how the pricing environment has changed due to the growth in the usage of the internet. Here, the case teacher should make sure that the students understand the several benefits that use of the internet has in terms of ‘pricing’ and the benefits it holds for both the buyers and sellers. The discussion must then be directed toward the several pricing objectives that companies have and more importance should be given to the pricing objective of ‘Maximizing Market Share’ as this is the objective on which Wal-Mart and Amazon mainly focus.

After this, the case moderator should ask the student to find out the kind of pricing that Wal-Mart generally follows – the answer being ‘Value Pricing’. After the students give the answer, the moderator should move on to explain about value pricing with special reference to EDLP (Everyday Low Pricing). This is really important as Wal-Mart follows EDLP, which serves as a competitive advantage for the retail giant over other companies. Once the students get to know about all these concepts, the moderator should direct the discussion toward “Price-Cuts” which Wal-Mart (and even Amazon) regularly follow. The moderator should then initiate a discussion in the classroom regarding the challenges or risks that companies may have to face if they chose “Price-cuts” as an option for increasing sales and as well as facing competition.

The teacher could then conclude the discussion by summarizing all the key takeaways from the case. Based on this, the students could be asked to present their concluding thoughts on whether all these pricing strategies would help Wal-Mart beat Amazon in the online marketplace or not. The moderator should also initiate a critical analysis and discussion among the students on whether all these price-cutting strategies will be detrimental to Wal-Mart’s own long-term profitability.

QUESTIONS

1. Walmart.com and Amazon have increased their focus on pricing. Explain how online marketplaces, and mainly the internet, have changed the way buyers and sellers interact considering the changing price environment?

2. What do you think is the main pricing objective of Wal-Mart? Explain with reference to the case?

3. What kind of pricing do you think Wal-Mart was trying to follow? Also explain ‘Everyday Low Pricing’ (EDLP) with reference to Wal-Mart’s pricing strategy?

4. Wal-Mart and Amazon are engaged in competitive price-cutting strategies. Though it might initially help them in attracting customers, price-cutting may tend to be harmful to the companies in the long run. Do you agree? Justify your answer.

DISCUSSION QUESTIONS AND ANALYSIS

1. Walmart.com and Amazon have increased their focus on pricing. Explain how online marketplaces, mainly the internet, have changed the way buyers and sellers interact considering the changing price environment?

A. Wal-Mart has had to bring about a few changes in its pricing decisions as the pricing and interaction between the buyers and sellers is not the same as it was earlier, mainly due to the important role played by the internet in this. The following points reflect a few ways in which pricing has changed due to the internet’s influence in the buyer-seller interaction and the selling process.
**Instant Price Comparisons from Multiple Vendors:** Smart consumers today compare the prices of specific products on multiple online sites/marketplaces like Walmart.com, Amazon, and others. Hence, Wal-Mart has been focusing on multiple options to bring down the costs, so that it can offer its products at the lowest possible price to its customers. The customers then do price comparisons and purchase the product from a place which gives them the best value for their money. Today, due to the availability of the internet and smartphones, consumers are able to find out the different price points at which multiple sellers offer their desired product. The availability of the internet has given a wider choice in selecting the seller.

**Monitoring Consumer Behavior:** As we have read from the case, Amazon has very powerful algorithms which also track and store consumer data regarding their buying behavior like past sales data and discounts. This not only helps them in improving their suggestions, but also in identifying the major factors which consumers consider while buying a product. This might help them in designing their pricing strategies and also in tailoring their offerings to a few individuals. Monitoring consumer behavior will not only save order processing time but also help the companies in pricing their products according to the demand.

**Special Prices for Specific Customers:** As we can see from the case of Amazon, the online marketplace offers its products as well as other services like content streaming among others, at special prices. For example, Prime members can also avail of discounts while purchasing books from Amazon’s brick-and-mortar stores, while others must pay the cover price. Prime customers also get to enjoy extra benefits like early delivery, access to lightning deals, etc. when compared to other customers. Apart from that, the online companies can identify special customers and thereby offer special discounts to such customers.

2. **What do you think is the main pricing objective of Wal-Mart? Explain with reference to the case?**

A. The objective which a company wants to accomplish or fulfill by pricing its offerings accordingly, is known as the pricing objective. From the case, we have read that though Wal-Mart knows that it will not be able to achieve higher profits in the online market as compared to the physical retail stores, it was still coming up with several pricing strategies to offer products at the lowest possible prices and beat Amazon. This clearly indicates that it was not just profit that Wal-Mart was after, but market share. Wal-Mart wanted to beat Amazon in its retail battle and to become the top online retailer. This shows that Wal-Mart’s pricing objective was to ‘maximize its market share’.

Companies which have the pricing objective of maximizing market share, tend to offer products at lower prices as they believe that higher sales volumes would drive down per unit costs which would ultimately lead to higher long-run profits. Wal-Mart’s culture has imbibed the concept of Low Prices, and many analysts believe that the company purposely sets a lower price to win a larger market share, compared to the competitors. The customers in the retail business are very price sensitive and they tend to purchase their goods from a retail company which offers them the desired products at lower prices. So, this could be identified as one major reason why Walmart has the pricing objective of ‘Maximizing Market Share’.

3. **What kind of pricing do you think Wal-Mart was trying to follow? Also explain ‘Everyday Low Pricing’ (EDLP) with reference to Wal-Mart’s pricing strategy.**

A. Normally, companies select pricing methods which consider one or more of the following aspects:

- Cost sets the base of a product’s price
- Competitor’s pricing and also the prices of substitute products
- Customer’s assessment of a product’s unique features
From the details presented in the case, one can say that Wal-Mart follows a method of pricing in which it sets the lowest possible prices to attract and retain customers to earn their loyalty. In order to ensure the lowest possible prices to its customers, Wal-Mart has been adopting several cost-cutting strategies like:

- Asking the Vendors and the suppliers of Consumer packaged goods (CPG) to reduce the prices to a large extent
- Wal-Mart even resorted to measures like asking its sales associates, stock clerks, and cashiers to use their own cars to deliver online orders to nearby customers on their way back home
- Wal-Mart confirmed that it was reducing its workforce by ‘hundreds’ of positions within its international and technology businesses to cut costs and introducing many other such cost-cutting techniques.

All these factors help us to identify that Wal-Mart follows the method of “Value Pricing”. It is because in this method, companies try to earn loyal customers by setting the lowest possible prices. Companies that adopt such a strategy try to achieve this by cutting the cost of their products as this gets reflected in the final price.

In value pricing, Walmart sets everyday low prices at its stores, so that the customers need not keep waiting or keep looking for advertisements for any special price offers/promotions or any special sale discounts. This way, the customers get to enjoy lower prices every day without having to continuously compare while shopping. This type of pricing strategy is called EDLP (Everyday Low Pricing), which is an important type of Value Pricing. Wal-Mart follows EDLP for most of its products except for a few items every month.

4. **Wal-Mart and Amazon are engaged in competitive price-cutting strategies. Though it might help them in attracting customers, price-cutting tends to be harmful to the companies in the long run. Do you agree? Justify your answer.**

It is clear that Wal-Mart and Amazon are competing with each other to dominate market share, primarily by cutting costs. Many experts believe that these companies tend to do so in order to not only attract new customers but also to retain their existing customers. Price cuts may help these companies in attracting customers in the short term but they usually spring several traps in the long run. Some of the challenges of price cuts are as follows:

- Though consumers buy daily consumer goods at lower prices from Wal-Mart, they are not ready to buy high-end goods like ‘Flat Televisions’, ‘Silk Camisoles’, and other luxury items from a vendor of their choice. This is mainly because of the ‘low-price’ image that Wal-Mart portrays. By looking at low prices, consumers assume that the product is also of lower quality. This may adversely affect the company’s brand image.
- Wal-Mart has been offering its products at lower prices mainly with the objective of attracting customers and thus capturing market share. Though companies may enjoy increased sales in the short term, lower prices cannot buy loyalty. This is because those customers, who may be buying goods at lower prices from Wal-Mart today, will shift tomorrow to another retail store which offers them their desired products at much lower prices.
- Though Wal-Mart offers products at lower prices to its customers, it suffers from shallow cash reserves as the lower prices eat into the profit margins of the company. So, retail experts say that compared to Wal-Mart, higher priced companies will be in a better position to enjoy higher margins as they have deeper cash reserves. This is another risk which companies offering price cuts have to face.
Wal-Mart is known for the low prices it offers in the retail business but Amazon also started offering many product at prices lower than Wal-Mart’s. Wal-Mart responded to this by further lowering its prices to compete with Amazon. Now, Amazon has also started coming up with other pricing strategies to beat Wal-Mart. So, this continuous lowering of prices by each company has led to the emergence of price wars between Wal-Mart and Amazon. Generally when a company lowers its prices, competitors respond by further lowering their prices, and their actions could trigger a price war, which may end up harming the industry as well.

Wal-Mart and Amazon have the pricing objective of achieving maximum market share, and are hence offering prices at lower prices. But customers are not aware of the reason behind the price cuts and hence they make multiple assumptions regarding the cuts, which might prove to be harmful for the very sales of the company. For example, customers might associate the price cuts with several assumptions like:

- The items are faulty and are not selling well
- The items are of old stock and the company is clearing them out
- The firm is facing financial troubles and hence it is desperate to attract customers
- The prices are further going to come down

Apart from these challenges, there are other risks that are associated with price cuts. For example, if customers get used to price cuts, they will start demanding price concessions every time from the company.

SUGGESTED ASSIGNMENT QUESTIONS:

The questions provided here could be given as assignments. After discussing the questions mentioned under the main case in the class, the students should work individually to develop answers to these assignment questions and submit them to their respective faculty member for evaluation.

1. What do you understand about Wal-Mart’s ‘Pick and Mix Pricing’? The prime focus of Wal-Mart and Amazon has been to reduce the prices. Why do you think pricing is so important to these companies? Support your answer with references from the case.

2. Considering the case facts, will it be appropriate for Wal-Mart to focus and invest heavily in online retail by partially replacing its sound physical retail stores, even after knowing that the online profitability will not be too high? Explain by outlining the positive and negative outcomes of this move.

3. Apart from price wars, suggest other strategies or options which Wal-Mart can use to compete against Amazon, while ensuring its long-term sustainability in the market.
FINAL THOUGHTS

Wal-Mart might be able to sustain itself online in the long term, mainly because of its deep pockets (generated over the years) and, second, due to the acquisition of Jet.com, which had given it the right kind of people required to manage its online retail business. But this might come at the cost of short-term profitability for the retail giant, as growing e-commerce would drive profits down at least for a short period of time. An increase in the initial online operations and investments paired with increased costs at the beginning ate into the revenue and thus caused a fall in the initial profits for e-commerce businesses. Though these were considered general conditions for any ordinary retail business, it could be a little different for Wal-Mart because it already had the scale and good infrastructure and was also in a position strong enough to negotiate for lower prices with vendors compared to other newer e-commerce businesses. Due to these unique benefits that Wal-Mart already enjoyed, the company would not lose money on its digital operations, be it in the long or short term. The only substantial effect would be that the company was only going to make less profit on each online sale compared to its stores.

As long as Wal-Mart managed to continue to grow its sales, like it had done in Q4 of 2016-17, it would not have any serious problems. Wal-Mart would manage to do this because its prime competitor Amazon had built its huge online business essentially by living on small margins but making up in terms of volume. This implied that as Wal-Mart moved toward digital retailing, it was going to spend billions on a business which was less profitable than the one it was partially replacing – the physical retail stores.

For Wal-Mart, its retail stores format is a crucial source of its strength, profit, and market share. Some experts even suggested that Wal-Mart might end up losing its hold on both the physical and online retail businesses if it continued to shift resources to the e-commerce business, primarily to compete with Amazon. In such a situation, Wal-Mart’s online strategy would prove to be more harmful than beneficial if it was intended mainly to win the price wars against Amazon, they contended. However, Amazon is also making rapid inroads in the physical store space and also challenging Wal-Mart’s prices. In such a situation it only makes sense for Wal-Mart to ramp up its presence on the online retail space. The future would not be about just whose prices are lower, but on how well the companies are about to take care of their customers’ needs. Innovation has a big role to play here. Amazon has already made a name for itself in innovation, but with its new initiatives Wal-Mart has also attracted the attention of the industry. The retail war is now truly on.
Suggested Readings and References:

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