Amazon vs. Wal-Mart: The Retail Price Wars

This case was written by Syeda Tahera Sadia, under the direction of Debapratim Purkayastha, IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.
Amazon vs. Wal-Mart: The Retail Price Wars

“Each one is trying to become more like the other — Walmart by investing heavily in its technology, Amazon by opening physical bookstores and now buying physical supermarkets.”


Wal-Mart Stores, Inc. (Wal-Mart), a US-based multinational retailing corporation, had framed several strategies in its price war with American e-commerce and cloud computing company Amazon.com (Amazon) to not only retain its position as the top retailer in the US but also to become the market leader in the online retail business. 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 the items 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 Wal-Mart’s physical stores and on Wal-Mart’s third-party marketplace. This marked the extension of Wal-Mart’s aggressive pricing to other categories such as baby gear, electronics, and home goods. The discounts would vary with the specific item, weight of the product, and the product category, along with how much Wal-Mart would save on shipping costs.

“One of the things I love most about Wal-Mart’s heritage is the maniacal focus on our customers and finding ways to offer them low prices — every day. We do this by creating efficiencies in our business so we can share the savings with them. And, in the online world, we can use our physical stores and supply chain to do some pretty unique things for our digital customers,” of Marc Lore (Lore), President and CEO of Wal-Mart US Ecommerce.

This innovative pricing strategy, popularly being called “Pickup Discounts” was the brain-child of Lore. “Marc Lore and team have rightly targeted the high cost of shipping and turned it into an opportunity for their stores,” said Mark Ryski, CEO of HeadCount Corporation. According to Lore, Wal-Mart was able to offer discounts because this strategy helped it cut costs with the goods being delivered in bulk directly to its fulfillment centers instead of individual items having to be shipped directly to the customers. This program was a part of the company’s larger plan to make it less expensive and more convenient for the customers to shop.

‘PickUp Discount’ was one of the several other initiatives which Wal-Mart took to tackle the stiff competition with other marketplace sites, primarily Amazon Marketplace and eBay Inc. (Popularly known as eBay). This decision was implemented at a time when retail stores were losing their

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*a* HeadCount Corporation is an IT and services firm with expertise in retail traffic and customer conversion analysis.

*b* Amazon Marketplace is an e-commerce platform owned and operated by Amazon.com that enables third-party sellers to sell new and used products on a fixed-price online marketplace alongside Amazon’s regular offerings. Using Amazon Marketplace, third-party sellers gain access to Amazon’s customer base, and Amazon expands the offerings on its site without having to invest in additional inventory.

*c* eBay Inc. is a US-based multinational e-commerce corporation, facilitating online consumer-to-consumer and business-to-consumer sales. As of 2017, eBay was a multibillion-dollar business with operations in about 30 countries.
popularly, primarily due to the growth of online retailing. According to analysts, the “Pickup Discounts” were expected to give Wal-Mart an edge over Amazon, because of the former’s strong retail presence of close to 5,000 outlets in the US, which Amazon lacked. However, Amazon did not remain a mute spectator to Wal-Mart’s new initiative. The e-commerce giant too came up with several such tactics to take Wal-Mart head-on. Many analysts thus opined that “Amazon vs. Wal-Mart” would always be considered one of the biggest retail battles of all times.

WAL-MART

Headquartered in Bentonville, Arkansas, Wal-Mart was founded by Sam Walton in 1962 and incorporated on October 31, 1969. It operated as a chain of hypermarkets, discount department stores, and grocery stores in several countries across the world. According to the Fortune Global 500 list in 2016, Wal-Mart was ‘The World’s largest company by revenue’ and also ‘The world’s largest private employer’, with 2.3 million employees. Wal-Mart’s total revenue for the fiscal year ended January 31, 2017, was US$485.9 billion. From 2006, the net sales (worldwide) of Wal-Mart had been increasing gradually, indicating the scope of Wal-Mart’s business throughout the world (Refer to Exhibit I for Wal-Mart’s Net Sales Worldwide from 2006 to 2017). Doug McMillion took over as CEO of Wal-Mart in 2014.

From humble beginnings as a small discount store in Rogers, Arkansas, Wal-Mart grew to become a retail company operating over 11,700 retail stores across 28 countries as of January 31, 2017. Wal-Mart’s main focus had always been on offering quality products at low prices to its customers. It managed to do this by maintaining a strong and dominating relationship with its suppliers. Suppliers too, accepted Wal-Mart’s terms and conditions because of its huge scale of operation, reach, and success.

Wal-Mart owned close to 5,000 retail stores in the US alone. But, according to some analysts, somewhere down the line, in its thirst for increasing the number of retail outlets, Wal-Mart underestimated the convenience, importance, and scope of online retail shopping. That was the time when Jeff Bezos was also building Amazon to become a market leader in the e-commerce business. Though Wal-Mart started Walmart.com in 2000, it was only after 2010 that the company started making a serious effort to improve its online channel and its sales. Wal-Mart opened up its online retail site to third party sellers only after 2015 as it was reluctant to adopt the idea till then. Wal-Mart was way behind Amazon in terms of online sales but because of its increased focus on and investment in the online channel, the gap gradually narrowed down such that, as of 2017, the two giants were competing fiercely to be the leader in retail sales, especially online. Engaged in a price war, Wal-Mart and Amazon started coming up with newer and more interesting strategies to reduce prices and thereby appeal to customers.

At a time when people preferred to shop online, Wal-Mart came up with strategies like ‘Pickup Discounts’ which would help the retail giant increase its online sales while also leveraging its well-established chain of retail outlets. Analysts considered this as one of the best examples of omni-channel management.

AMAZON.COM

Based in Seattle, Washington, Amazon was an e-commerce and cloud computing company, started under the name ‘Cadabra’ by Jeff Bezos (Bezos) in 1994. The name was later changed and the company went online as Amazon.com. Amazon, which initially started as a book store, later

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d Omni-channel is a cross-channel business model that companies use to improve their customer experience. This includes channels such as physical locations, FAQ web pages, social media, live web chats, mobile applications and telephone communication. Companies that use the omni-channel contend that a customer values the ability to be in constant contact with a company through multiple avenues at the same time.
diversified into several other categories like electronics, apparel, furniture, food, and many more. In 2000, Amazon launched Amazon Marketplace. That was when a new logo with a smile shaped from ‘a’ to ‘z’ was launched, indicating the company’s desire to sell anything from A to Z. Amazon started its “Prime” service in 2005, allowing free two-day shipping to those customers who paid a specific annual fee. It went on to add several dimensions to the “Prime” service by including Amazon original content and also online streaming of several popular TV shows, movies, and music. Amazon ventured into the ‘Food Delivery Business’ in 2006 by launching “Amazon Fresh” in Seattle. In 2013, Amazon unveiled ‘Drone Delivery’ plans for the first time under the name “Amazon Prime Air”.

For 2016, Amazon’s revenue stood at US$136 billion (Refer to Exhibit II for Amazon’s Net Sales Worldwide from 2006 to 2016), and as of early 2017, it employed nearly 341,400 employees across the world.7 It went on to become the world’s largest online retailer, which straightaway made it Wal-Mart’s biggest competitor.

WAL-MART VS AMAZON – THE RETAIL BATTLE

Amazon was a young fledgling company in 1999 with annual revenue of US$1.6 billion, while Wal-Mart’s was around US$138 billion for the same year.8 According to observers, Wal-Mart had never dreamt that this small online company could grow to such an extent where it would challenge its very market position in the retail industry. In 2012, Wal-Mart’s revenue was about US$444 billion, estimated as 16 times the revenue of Amazon at that time and equal to 3% of the US economy – such was the strength and position of Wal-Mart in the US retail industry.9 But market analysts pointed out that gradually, due to increased internet usage and online retail growth Amazon had surpassed Wal-Mart’s traditional retail growth (Refer to Exhibit III for retail ecommerce sales in US from 2015 to 2021). This came as a huge blow to Wal-Mart, which till then had been focusing mostly on increasing the number and scale of its physical outlets and failed in leveraging Walmart.com. Meanwhile, Amazon, which had been constantly growing its online operations, benefitted from the shift in customers’ preferences and behavior.

By 2014, Amazon’s revenue was nearly US$89 billion, almost five times what it had been in 1999, while Wal-Mart’s was US$486 billion, almost three times what it had been before 15 years.10 However, though Wal-Mart was well ahead of Amazon in terms of overall revenue, it was way behind its competitor in generating online sales. Of Wal-Mart’s entire revenue in 2014, only 2.5% or about US$12.2 billion came from its online site Walmart.com.11 This showed a striking difference in online sales and revenue between Amazon and Wal-Mart. But, analysts attributed this gap to the fact that Wal-Mart was still a beginner in online sales at that point of time while Amazon had been running its operations online ever since its inception. As the two companies vied with each other to increase their sales, a full-fledged price war erupted. Market analysts said ‘algorithms’ played a key role in this price-war. This was because Amazon used algorithms which would scour the web to identify and beat or at least match the lowest prices they found on the internet for a specific product, which meant that the prices could change constantly, while Wal-Mart used a consistent ‘everyday low price’ within its stores.

Wal-Mart and Amazon both aimed to create a seamless shopping experience that would blend the convenience of an e-commerce platform with the scope of a powerful in-store experience, as people preferred to enjoy complete flexibility without any constraints in the way they wanted to shop or the channel they chose to use. Retail experts stated that Amazon and Wal-Mart were in a dead heat when it came to supply chain expertise, as Wal-Mart had perhaps one of the best retail networks and great physical distribution while Amazon was the leader in the online space. “Each one is trying to become more like the other; Wal-Mart by investing heavily in its technology, Amazon by opening physical bookstores and now buying physical supermarkets,”12 wrote Neil Irwin, senior economics correspondent for The New York Times. His statement indicated that each company had something which the other wanted and needed to be a complete retail package.
Industry observers noted that Wal-Mart’s efforts were more like reactive measures to the problems it was facing while Amazon’s investments in technology looked pro-active enough to create markets which would be booming in the years to come.

WAL-MART’S INNOVATIVE PRICING STRATEGIES TO COMBAT AMAZON

Wal-Mart’s Pickup Discount initiative, also known as the ‘buy online and pickup in store’ (BOPIS) model, came in the wake of Wal-Mart’s US$3.3 billion acquisition in August 2016 of Jet.com, a 15-month-old online marketplace which sold almost everything – books, electronics, clothes, etc. Jet.com was founded by Lore, who was also the company’s CEO. A remarkable outcome of the acquisition was that Lore and his management team were given charge of the retail giant’s online channel, Walmart.com, which made them responsible for the entire domestic online operations of Wal-Mart. Many analysts considered this step as a rescue mission that would allow Wal-Mart to compete with Amazon by overcoming its very own underachievement in online retailing.

Long before all this happened, in 2010, Wal-Mart tried to purchase Lore’s first online retail company, Quidsi Inc., which operated websites such as Diapers.com (sold diapers) and Wag.com (sold pet-care products). But it was a close miss as the retail site was then bought by Amazon for a higher bid. But Lore left Amazon after two years as the e-commerce giant refused not only to invest more in Quidsi but also wanted to integrate his team within the company. Soon after that, Bezos closed down Quidsi saying it was not profitable. Wal-Mart exploited the feud between Bezos and Lore to improve its own online operations and sales. Observers found that the major focus of Wal-Mart and Amazon, was on coming up with several cost-cutting strategies which would in turn reduce prices and help in fighting competition.

Just like pickup discounts, Lore declared that he would soon strengthen Wal-Mart’s online services by bringing ‘Pick and Mix’ pricing to Wal-Mart, which would provide shoppers control over how much to save when they preferred to shop online. The ‘Pick and Mix’ was a pricing model where shoppers would be given discounts if they opted out of free returns, if they chose to pay with their debit card, or if they chose the BOPIS option or all of them together. This model of pricing would be applicable exclusively to online shoppers, and experts believed that this would help the retail company to cut costs to a considerable extent. They felt that this pricing model would give greater choice and empowerment to the shoppers and thus help Wal-Mart compete effectively with Amazon and other online marketplaces. “This is a win-win for the consumer and a strategic advantage for Wal-Mart as they begin to sync their Jet.com acquisition to calculate these savings for customers and distance themselves from Amazon by better leveraging their unique physical store footprint,” said Sarah Engel, chief marketing officer, DynamicAction (Refer to Figure 1 for Pick and mix pricing model).

Figure 1: The Idea of Pick-and-mix Pricing Model from jet.com

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* A data analysis company based in Silicon Valley, California.
Lore’s idea of Pickup Discounts

After the acquisition, Lore decided to extend Jet’s business model to Walmart.com, so that it could boost Wal-Mart’s online sales and performance. The strategy of pickup discounts was meant to offer attractive discounts to the shoppers if they opted to buy online and pick up the products at its stores. Wal-Mart introduced this option mainly with an eye on saving on shipping costs while also offering flexibility to customers. The savings thus made would in turn be shared with the customers in the form of lower prices or discounts. “We’re creating price transparency to empower customers to shop smarter and choose what’s best for them. Now they can either pick up and save even more money, or ship two-day for free to home, without paying for a membership,” said Lore, in a blog post announcing the pickup discounts. Analysts believed that this pickup option would help Wal-Mart reduce prices, which would ultimately aid the company in its price war against Amazon. They also felt that if Wal-Mart’s top-selling items were sold at a price lower than elsewhere, customers would have no problem in going to the store to pick up their order, as there was a Wal-Mart store within 10 miles of 90% of the US population. Also, according to a 2016 “Walker Sands Future of Retail Report,” 51% of the consumers had picked up an online order in store, which clearly highlighted the growing popularity of the BOPIS option in retail.

Apart from cutting costs and passing on the savings to the customers, retail specialists identified several other benefits for Wal-Mart in implementing ‘pickup discounts’. They pointed out that this option would cause an increase in impulse purchases when customers came to the stores to pick up their online orders. This would lead to an increase in and involvement of online shoppers in store sales too. Moreover, some observers said this initiative would help Wal-Mart in optimizing omni-channel management. This was because Wal-Mart would be leveraging its well-established delivery network and led to cost savings. “When we leverage our fleet of more than 6,700 trucks to deliver products directly from fulfillment centers to our 4,700 stores, this means quite simply, it costs less for us to ship to stores. So, our customers should share in those savings,” said Lore. Wal-Mart also claimed that rather than making profits, its main objective was to pass on the savings to the customers in the form of reduced prices. “It’s really meant to be neutral with respect to the financials of Wal-Mart, with all the benefit being passed on to the customer. Our view is that we don’t want this to be necessarily a more profitable channel than e-commerce. The idea is that there’s certain profitability in the e-commerce channel, and to the extent that we could save money relative to that, we’d share that with customers — that’s how we’re thinking about it,” noted Lore.

Challenges for Wal-Mart’s Pickup Discounts

Retail specialists contended that though the pickup discount initiative looked lucrative, it might not be the ideal strategy. They cited a few reasons for this. First, though it was agreed that this initiative would drive in online customers to the stores which may increase impulse purchasing, Wal-Mart’s employees had to be properly trained to manage the influx of online shoppers. Second, the stores were also not designed or set up to accommodate the needs of online shoppers, which would become a negative aspect if not altered. “This all hinges on the store operations. If people have a bad experience with click and collect, they’re probably not likely to try it again,” wrote Michelle Grant, head of retailing at Euromonitor International. Third and most importantly, experts opined that with this kind of pricing, Wal-Mart also ran the risk of undercutting itself in terms of pricing. “By over-discounting or offering the promotion on too many items, Wal-Mart may end up losing profit margins on both online and in-store purchases,” says Nick McLean, CEO of e-commerce technology provider Order Dynamics.

Retail analysts also felt that instead of covering its entire range of products under this pricing strategy, Wal-Mart should have first targeted smaller segments. Some observers were also of the view that this kind of differential pricing for different channels could put off shoppers. Steve Dennis, long-time retail executive, said, “The downside is push back on different pricing across

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1 A business intelligence company, headquartered in London, United Kingdom
channels. A smart way for many retailers to test this would be to target certain customers as a promotional offer.” Besides this, several analysts were of the opinion that though pickup discounts made sense within the context of ‘Wal-Mart’s low price value proposition’, it still lacked in resolving the challenges in enabling a convenient online shopping experience. “At the end of the day, you still have to go to the store to pick up the item even with the discount. Also if Amazon’s price matching algorithm offers customers the same item at Wal-Mart’s discounted in-store pickup price, plus the benefits of free two-day Prime shipping, I’m not sure that’s a recipe for success from Wal-Mart’s perspective,” said Ben Gaither, a senior associate analyst with Robert W. Baird.

Wal-Mart’s Cost-cutting Measures

Wal-Mart also tried to do cost-cutting by asking the vendors and the suppliers of consumer packaged goods (CPG) to reduce their prices to a large extent. According to the company’s statements in one of its presentations at the 2017 Suppliers Summit, Wal-Mart wanted to have the lowest prices for 80% of its products which would mean that the brands which sold their products through Wal-Mart would have to shave at least 15% off their prices by either cutting wholesale prices or by making other cost adjustments. Some suppliers explained that to meet Wal-Mart’s demand, they would be losing money on each sale, which, according to retail experts, would seriously threaten their profitability and sustainability. In these meetings, Wal-Mart also promised that brands which agreed to its demands would enjoy better distribution and more strategic help from the retail giant. And for the brands that didn’t agree to its terms, Wal-Mart threatened to limit their distribution and also come up with its own branded products to challenge its opposing suppliers. “Once every three or four years, Wal-Mart tells you to take the money you’re spending on [marketing] initiatives and invest it in lower prices. They sweep all the chips off the table and drill you down on price,” said Jason Goldberg, head of the commerce practice at SapientRazorfish, a digital agency that worked with large brands and retailers.

Besides these measures, 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. This delivery program was voluntary for the employees and they could sign up for a maximum of ten deliveries per day. “Associates love having the option to earn more cash while doing something that’s already part of their daily routine. This initiative will cut shipping costs and get packages to their final destinations faster and more efficiently,” said Lore. By tapping its employees, Wal-Mart could cut out middlemen like Instacart, which charged the company for its delivery services.

Moreover, Wal-Mart said that it was reducing its workforce by ‘hundreds’ of positions within its international and technology businesses. Analysts believed that the motive behind this move was to trim its store portfolio and thus redirect resources and efforts to strengthening its e-commerce business. “We will continue to look at the company and there could be more positions down the road that we eliminate, there could be positions we add. Look at the online business: We’ve got online grocery, pick-up in store – those are examples of where we’ve added because the business is changing as we become a more digital company,” said Wal-Mart spokesman Randy Hargrove.

Wal-Mart’s Measures to Support its Strategies

When Wal-Mart announced the launch of its pickup discount option, many analysts were skeptical about this idea as the retail stores of the company were not designed to facilitate efficient and hassle-free pickup of online orders by the customers. With its new initiative, customers had to go into the store to pick up their orders, but Wal-Mart had already started working on improving the system by developing an exclusive curbside pickup option for online orders. Its online grocery

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6 Baird is an employee-owned wealth management, capital markets, asset management and private equity firm.
pickup service was already available in 600 stores, with 500 more planned to come up by the end of 2017. According to internal sources in Wal-Mart, the retail giant had already planned most of the intricacies ranging from staffing to alerts to even the parking space to be reserved for the pickup customers, so that there would be no delays or inconvenience to online customers.

In late 2016, Wal-Mart began trialing a “Pickup Tower”, which was being piloted in its store in Arkansas, specifically for online orders. The Pickup Tower, code-named ‘Rapunzel’, was a huge vending machine installed within the store. It could hold as many as 300 orders and pushed the right one out when a customer entered order info through a touchscreen. “The pilot phase has been so successful we’re expanding it to other locations across the country. We’re also testing other pickup options and locations that quickly get items to you in ways that are most convenient,” said Mark Ibbotson, executive vice president of central operations for Wal-Mart US. Also, to encourage more online sales, Wal-Mart announced in January 2017 that it had brought down the minimum order amount from US$50 to US$35 for free two-day shipping. This was done mainly to counter the “Prime” option of Amazon.

In terms of acquisitions, apart from Jet.com, Wal-Mart had also continued to make web-based acquisitions, especially of niche retailers like ShoeBuy Inc., an online shoe and apparel retailer for US$70 million. It acquired outdoor apparel and equipment retailer Moosejaw for US$1 million and also quirky women’s apparel website Modcloth and e-commerce driven apparel company ‘Bonobos’.

Jet.com had bought e-retailer ‘Hayneedle’ for an undisclosed price in February 2015 and it later got included in Wal-Mart’s acquisition of Jet.com. “The acquisitions of ShoeBuy and Moosejaw, in addition to Hayneedle, gave us immediate expertise and capabilities in new, more upscale categories of merchandise,” Wal-Mart CEO Doug McMillon (McMillon) said.

WAL-MART’S STAND IN THE MARKET

As of January 2017, Wal-Mart operated in various formats of retail stores, under roughly 63 different banners including Wal-Mart, Sam’s Club, and Asda (UK), offering a wide variety of items in 28 countries across the world. As of January 31, 2017, Wal-Mart operated around 11,695 stores in total in 6,363 locations internationally. Apart from these physical retail stores, Wal-Mart also operated different ecommerce sites in 11 countries. “We continue to invest in e-commerce to accelerate growth. We’re gaining traction and moving faster. We’re the second-largest U.S. online retailer by revenue, one of the top three online retailers by traffic and our Walmart app is among the top three apps in retail,” said McMillon.

Wal-Mart had reported just 7% growth in e-commerce sales in the first quarter of 2016-2017, which drew a lot of criticism for the company. But Wal-Mart worked on the issue and its efforts paid off as the retail giant’s e-commerce sales grew by 63% in the first quarter of the financial year 2017-2018. McMillon said that a major part of that sales growth stemmed from Wal-Mart.com and not from the acquisitions that it had made. Analysts felt that Wal-Mart had made two major changes which paid off and led to the increase in online sales. First, the “free two day shipping for orders above $35” and second, “the pickup discounts”.

The selection of items from Wal-Mart.com had increased from 10 million items in the first quarter of 2016-17 to 50 million items in the first quarter of 2017-18. Despite the growth in e-commerce, the company had been giving quite a lot of time and attention to developing its retail stores as well. The retail giant was also planning to come up with several strategies to leverage its well-established chain of retail outlets while simultaneously increasing its online sales. “While e-commerce is growing rapidly, customers continue to rely on brick-and-mortar formats. The

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b Wal-Mart’s financial year starts from February.
Supercenter remains the best retail format in the world, and going forward, we will continue to leverage these unique assets even more with initiatives like online grocery, in-store pickup and others. Rapid advances in technology mean we need to become more of a digital enterprise—and that’s what we’re doing,” McMillon said. Wal-Mart thus credited the results to its efforts of integrating its stores and digital retail businesses so that they would feed off each other and bring increased sales to the company as a whole. Despite all these efforts, Wal-Mart still remained far behind Amazon, whose online sales were about six times greater in the US.

**WAL-MART’S KEY ADVANTAGES OVER AMAZON**

While Wal-Mart and Amazon were in a heads-on price war with each other, retail experts identified two strengths of Wal-Mart which gave it a key advantage over Amazon – ‘Physical stores’ and ‘Grocery Sales’. Based on a new report from Citi Research1, Wal-Mart stood “Best Positioned” in terms of online grocery, compared to other online food marketplaces like Amazon Fresh/Prime Now, Kroger, and Whole Foods Market. According to a statement released by Food Marketing Institute2 and Nielsen3 in 2017, ‘Online grocery Shopping’ could grow by up to five times over the next decade as the spending of American consumers was expected to increase by US$100 billion by 2025 (Refer to Exhibit IV for Online grocery shopping sales in US, which provides an estimate for the upcoming years till 2021).

Analysts said that Amazon’s attempts to increase its presence in grocery indicated the profit potential it saw in capturing the consumer spending from food and beverage sales. But observers said the e-tailer would find it difficult to beat Wal-Mart in terms of online grocery as the latter was already well-established in grocery sales and its pricing. The observers also noted that Amazon’s prices on grocery tended to be higher than that of Wal-Mart. According to Citi Research, the price gap between Wal-Mart’s store pickup prices and the prices on AmazonFresh was an average of 30%, which was huge enough for Wal-Mart to scoop up the consumers for grocery sales. So, observers stated that at this stage, Wal-Mart clearly had an edge over Amazon in terms of grocery, a category which Amazon had entered in 2007.

Another area, according to the retail experts, in which Wal-Mart had an edge over Amazon, was its physical stores. As of mid-2017, Wal-Mart owned nearly 4,700 stores – including 3,522 supercenters in the US. This helped Wal-Mart in maintaining a wide reach and it was further expected to support its ‘Pickup discount’ strategy, thereby helping to cut costs and have the savings passed on to the customers. “Wal-Mart has an omni presence – Amazon does not – and Wal-Mart can leverage its 3,522 US Supercenter units to gain a meaningful advantage over Amazon,” wrote analysts in one of the research notes published in April 2017. Though Amazon had slowly started establishing exclusive pickup centers, it would find it a Herculean task to beat Wal-Mart in terms of physical stores. Some retail analysts felt that Wal-Mart was using the pickup discount option in its battle against Amazon to ‘weaponize’ its physical stores as an e-commerce asset, which its opponent lacked.

Besides this, Wal-Mart had also started testing grocery delivery in several markets. Industry observers felt that if the results turned out to be positive, it would give Wal-Mart another huge advantage over Amazon. “If Wal-Mart can solve for the last mile in fresh/food with simple, clear, and low pricing, Wal-Mart would leapfrog Amazon in food delivery,” wrote the analysts.

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1 Citi Research focuses on delivering company, sector, economic and geographic insights to its clients globally.
2 Food Marketing Institute advocates on behalf of the food retail industry.
3 Nielsen Holdings plc is a global performance management company and a provider of consumer information.
HURDLES IN WAL-MART'S PATH

Analysts suggested that if Wal-Mart continued to cut prices in its price war against Amazon, then it would soon face the risk of losing out on profits in both online and in-store purchases, which would further affect the long-term sustainability of the company.

Retail analysts were skeptical about Wal-Mart’s recent change to free two-day delivery without any membership fee for orders of US$35 or more to counter Amazon Prime. They felt that this strategy was not worthwhile compared to Amazon’s Prime service which not only offered free two-day shipping, but also movie and music streaming, photo storage and early access to ‘Lightning Deals’ – all at an annual subscription fee of US$99. Prime members could also avail of discounts while purchasing books from Amazon’s brick-and-mortar stores, while others had to pay the cover price. Industry observers said that more Prime benefits would be added by Amazon in the near future. Moreover, they also felt that the ‘free two-day shipping’ option sounded old as Amazon had already come up with ‘Free same day delivery by 9 PM’ on more than 1 million items in select areas and ‘Free two-hour delivery’ on specific products in select metro cities, as a part of its Prime Now option.

Though Wal-Mart had been increasing its online capacity and operations, it still had a long way to go. Analysts pointed out that Amazon sold nearly 160 million products online while Walmart.com sold only 15 million items with just 2 million of them being available for the 2-day delivery option. According to the IHL Group, 52% of online shoppers started their search on Amazon. Many analysts were of the opinion that Wal-Mart’s attempts to beat Amazon weren’t winning strategies as Amazon had the advantage of years of consumer data, as well as proficiency in data analytics to make smarter pricing and assortment decisions, spot trending products, and deliver personalized customer experiences. Though Wal-Mart’s recent acquisitions of e-commerce companies might help it to get better at this, Amazon would continue to improve too, further increasing the gap. Retail analysts also feared that in its battle with Amazon, Wal-Mart might lose focus on its brand identity of everyday low prices. They also felt that though Wal-Mart needed to be competitive on digital channels, it should excel at brick-and-mortar too, as it had perhaps the best retail network and physical distribution in the world. Instead of implementing cost cutting measures and indulging in a price war with Amazon, Wal-Mart should invest on enhancing its strongest competitive advantage, its physical stores, to promote omni-channel shopping and fulfillment options, improving the in-store experience and other such measures which could actually place Amazon at a disadvantage.

Many marketing experts feared that in this price battle, Wal-Mart might lose valuable ground instead of gaining on Amazon as they believed that whenever companies tried to imitate the practices of successful rivals instead of focusing on enhancing their strengths, their core competencies tended to stagnate while their customers became confused and the company’s opportunity to lead instead of follow could be squandered too.

AMAZON’S RESPONSE TO WAL-MART’S PRICING STRATEGIES

As Wal-Mart started coming up with newer strategies to dominate online retail, Amazon too was not far behind in developing counter strategies to retain its position as top online retailer in the US. For example, to counter Wal-Mart’s free two-day shipping for orders above US$35, Amazon, which had increased its minimum threshold to US$50, brought it down to US$35, so as to not lose its customers to Wal-Mart.

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1. IHL Group is a global research and advisory firm specializing in technologies for the retail and hospitality industries.
As mentioned earlier, Wal-Mart had acquired several niche online e-commerce sites to penetrate deeper into the online front and also to equip itself with the right kind of people and resources. Industry observers felt that as Wal-Mart already held a sound base in physical retail stores, these acquisitions would definitely assist the company in improving its online operations to compete with Amazon. On the other hand, Amazon had purchased Whole Foods Market (WFM), an American Supermarket chain exclusively featuring natural and organic foods, for nearly US$14 billion in August, 2017. Analysts believed that apart from giving a major boost to Amazon in the brick-and-mortar grocery retail industry, this acquisition would also help it move toward hyper-local delivery services. With nearly 450 stores across the US, with a reputation of selling high quality products along with high prices, WFM could legitimize Amazon’s grocery retail business in the US. “Millions of people love Whole Foods Market because they offer the best natural and organic foods, and they make it fun to eat healthy. Whole Foods Market has been satisfying, delighting and nourishing customers for nearly four decades -- they're doing an amazing job and we want that to continue,” Amazon CEO Jeff Bezos said.

Shortly after the acquisition, Amazon intensified the price war with Walmart as it signaled a wave of price cuts at Whole Foods. “This is just the beginning – we will make Amazon Prime the customer rewards program at Whole Foods Market and continuously lower prices as we invent together... There is significant work and opportunity ahead, and we’re thrilled to get started,” said Jeff Wilke, CEO of Amazon Worldwide Consumer.

Amazon had already made inroads into US grocery retail with Amazon Fresh, its grocery delivery service. In 2017, it had established two Amazon Fresh Pickup stores in Seattle, where the consumers could collect their groceries in as quickly as 15 minutes of placing their order. Apart from grocery, Amazon also had around 10 physical bookstores in the US. To be different from its rivals like Wal-Mart, Amazon had been leveraging its bookstores to market as well as to sell Amazon devices like the Kindle and the Echo. “We test, we innovate. We think the bookstores, for instance, are a really great way for customers to engage with our devices and see them, touch them, play with them and become fans. So we see a lot of value in that as well,” said Amazon’s CFO Brian Olsavsky. Many observers also felt that these bookstores acted as an indirect showcase for the ‘Amazon Prime Program’ as the prime members paid a considerably lower price than non-members did. Amazon had been coming out with unique ideas to leverage its existing capacities and resources to develop more new capacities in the near future.

Amazon had been identifying possible innovative ideas while foraying into the physical retail business. Amazon had been testing a store concept titled “Amazon Go” from 2016, in Seattle, where the shoppers would be charged automatically for the items they picked up from the store shelves, without having to wait at the check line to get the items billed. This concept would work by using a mix of camera, sensors, and computer vision to track the items being picked up from the store shelves by each customer. Retail analysts felt that these stores, planned to be started in 2017, would become ‘a hybrid supermarket-cum-pickup center’ which would be an added benefit for people who ordered groceries online, because apart from pickup, they could also shop for other items without having to spend time at the bill counter.

Many analysts believed that this was only the beginning as Amazon had several other innovative ideas stocked up for the near future. It already had a long-term plan of delivering groceries to customers’ doors using ‘Amazon Drones’. For bulkier orders, the online giant had plans for ‘Amazon’s self-driving delivery cars’ which had been working on the store-to-door delivery for over a year already.

All these strategies which Amazon had been using along with its different innovations posed the threat of eating into Wal-Mart’s advantages.
WHO WILL WIN THE PRICE WAR?

Over the years, Wal-Mart had excelled and become the best in brick-and-mortar retail stores while Amazon had won the online retail spectrum (Refer to Exhibit V for most popular retail websites). Now, each was trying to venture into the other’s dominion by engaging themselves in price wars against each other. Considering this scenario, many experts deliberated over the other potential war-zones that these two companies might engage in, like, mobile, virtual reality, and augmented reality.

Industry observers felt that though it was good to lower prices to offer products at the best possible price for customers, companies should also assess at what cost they were going to achieve this. Retail experts suggested that these two major retail companies should focus on other newer territories while also demonstrating the innovation rather than relying only on baseless price wars would definitely affect the long-term sustainability of these two companies. They feared that the companies might even face the risk of losing market share to other smaller, newer, and more innovative e-commerce companies like Lowe’s™ and Wayfair® which were rapidly moving into augmented and virtual reality with product offerings matching these visual aids. Though Wal-Mart and Amazon had already established a presence in these two areas, they needed to innovate more to continue in the market successfully.

Experts believed that for either Amazon or Wal-Mart to come out on top, there had to be an ‘innovation push, a willingness to make mistakes and an effort to transform yet again’; it would not happen just from innovative pricing strategies. The questions to be answered were: Is pricing the sole remedy to gain an edge over the competitors? Is it appropriate for Wal-Mart to shift its focus and resources toward e-commerce retail, partially replacing its well-established retail stores? What about Amazon’s push towards brick-and-mortar? Who will eventually emerge the winner in the retail wars?

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m Lowe's Companies, Inc. (Lowe's) is a Fortune 500 American company that operates a chain of retail home improvement and appliance stores in the United States, Canada, and Mexico. Founded in 1946 in North Wilkesboro, North Carolina, as of January 2016 the chain had 1,857 stores worldwide.

n Wayfair, Inc. is an American e-commerce company that sells home goods. Formerly known as CSN Stores, the company was founded in 2002 and now sells many home furnishings and décor items. Headquartered in Boston, Massachusetts, Wayfair has offices and warehouses throughout the United States as well as in Canada, Germany, Ireland, and the United Kingdom.
Amazon vs. Wal-Mart: The Retail Price Wars

Exhibit I

Wal-Mart’s Net Sales Worldwide from 2006 to 2017 (In Billion US Dollars)


Exhibit II

Amazon’s Net Sales Worldwide from 2006 to 2016 (In Billion US Dollars)

Source: www.statista.com
Exhibit III

Retail e-commerce Sales in the US from 2015 to 2021 (In Billion US Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>294.45</td>
</tr>
<tr>
<td>2016</td>
<td>322.17</td>
</tr>
<tr>
<td>2017*</td>
<td>353.68</td>
</tr>
<tr>
<td>2018*</td>
<td>389.38</td>
</tr>
<tr>
<td>2019*</td>
<td>425.75</td>
</tr>
<tr>
<td>2020*</td>
<td>459.23</td>
</tr>
<tr>
<td>2021*</td>
<td>485.27</td>
</tr>
</tbody>
</table>

* indicates estimated retail e-commerce sales in the US

Source: www.statista.com

Exhibit IV

Online Grocery Shopping Sales in US from 2012 to 2021
(Estimated Figures up to 2021 in Billion US Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales in billion US Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>5</td>
</tr>
<tr>
<td>2013*</td>
<td>6.9</td>
</tr>
<tr>
<td>2014*</td>
<td>8.4</td>
</tr>
<tr>
<td>2015*</td>
<td>10.1</td>
</tr>
<tr>
<td>2016*</td>
<td>12</td>
</tr>
<tr>
<td>2017*</td>
<td>14.2</td>
</tr>
<tr>
<td>2018*</td>
<td>22</td>
</tr>
<tr>
<td>2019*</td>
<td>26</td>
</tr>
<tr>
<td>2020*</td>
<td>29.7</td>
</tr>
<tr>
<td>2021*</td>
<td></td>
</tr>
</tbody>
</table>

* indicates estimated grocery sales amount

Source: www.statista.com
Exhibit V

Most Popular Retail Websites in US, Ranked by Number of Visitors, as of March 2017 (In Millions)

<table>
<thead>
<tr>
<th>Website</th>
<th>Visitors (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon Sites</td>
<td>183</td>
</tr>
<tr>
<td>eBay</td>
<td>96</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>87</td>
</tr>
<tr>
<td>Apple Sites</td>
<td>62</td>
</tr>
<tr>
<td>Target</td>
<td>49</td>
</tr>
<tr>
<td>The Home Depot</td>
<td>34</td>
</tr>
<tr>
<td>Etsy</td>
<td>32</td>
</tr>
<tr>
<td>Kohl’s</td>
<td>32</td>
</tr>
<tr>
<td>Best Buy</td>
<td>26</td>
</tr>
<tr>
<td>Wish</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: www.statista.com
End Notes:

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