Case 6

Wal-Mart Online—What to Do about Amazon.com?

Richard B. Robinson Jr. and John A. Pearce II

1 While the "online thing" has been exploding worldwide in the last 15 years, the world's largest retailer, Wal-Mart, has until recently not even broken out its online sales, preferring instead to look at overall sales and at the growing trend of shoppers ordering using its rather simple online site and picking up in its thousands of stores. And why not? Wal-Mart will exceed a half-trillion in sales this year. As the world's largest retailer and the United States' largest employer, it has reason to preserve and grow its concept of sell everything to everyone, close by. Consider these facts:

- Wal-Mart will soon reach 5,000 stores in the United States alone.
- Two-thirds of the United States population live within 5 miles of a Wal-Mart store.
- Its global presence, particularly in Asia and Central America, is rapidly expanding organically and through acquisition and joint ventures.
- Its global supply chain skills and resulting pricing power are unmatched.
- Its move into groceries has been quite successful in the United States and elsewhere.

2 Still, Wal-Mart's executive team is asking the question, "What's with this Amazon.com thing?" Amazon.com sells much of what Wal-Mart sells, other than groceries. Rumor has it they are looking into that. Amazon.com has gone from modest sales to almost $75 billion in 2013, steadily growing. It is even moving toward store locations via "locker" relationships with other former competitors, like Staples, which will have Amazon lockers in their stores for Amazon customers to pick up the things they have bought. Meanwhile, Amazon's ever-expanding customer base seems to do so because of the convenience of looking, clicking, and having it come to their front door without getting out of the house, into a car, and so forth—to the tune of, real soon, $100 billion annually. Yet, the Wal-Mart executives no doubt ponder, while they have long been the retailer of choice for the price-conscious, convenience-seeking customer, why do they only have $9 billion in sales through their Web site offering essentially the same products? What have they done wrong? What can they do to right it? How can they grab back a big chunk, say $50 billion, of the sales of "their things" that have gone through Amazon.com, instead of Wal-Mart or www.walmart.com? Neil Ashe, CEO of Wal-Mart's e-commerce unit, said in 2013 that "we can build e-commerce equivalent to anyone in the world." Mixing the company's expanding online capabilities with its knowledge from running stores for 50+ years "creates a commerce experience that no one else can do." While that may be so, $100 billion versus $9 billion still legitimately calls the question.

3 What would you advise them to do to solve this "problem"? Should they not bother with it, and instead continue with where they have long been—consider the online thing a fad; have and improve their Web site, but continue to build more stores, increase locational convenience, and keep prices low with unmatched selection? Or should they aggressively attack Amazon.com, build not only their Web site but other ways to sell online and support online sales? What should they do?

4 Wal-Mart executives seem to have sought to do both, continuing with the latter strategy while expanding their tiptoeing into Amazon.com's space. Executives favoring more than the tiptoe approach have proposed the following tactics:

1. The Locker Tactic. This idea is to have special lockers in every Wal-Mart store—a customer buys something online, selects a Wal-Mart (or Sam's) store closest to them (remember the 5-mile proximity thing), and can stop by that store to check with the customer service desk and pick up the purchase for a quick in-and-out purchasing process. Wal-Mart's supply system, JIT capabilities, and point-of-sales linked with distribution system capabilities mean it can do this without any additional net costs on its end—the result is more sales, customer convenience, and increased incremental profit . . . and one less Amazon.com customer.

   Wal-Mart thinks its network of physical stores, married with customers increasingly using smartphones as they shop, will easily drive them to use the locker fullfilment option, competing in the process with Amazon's successful Prime subscription service. That service gives free two-day shipping anywhere in the United States for $79 per year.
2. The Online Grocery Purchase and Delivery Service Offering. Wal-Mart is experimenting at several stores with grocery offerings whereby customers can enter their grocery purchases online, pay online, and have those purchases delivered directly to their house or other indicated location by Wal-Mart grocery delivery personnel. They envision a minimum purchase total that would avoid any delivery fee; or otherwise have a modest fee if purchases fall below that minimum. The executives advocating this idea say it can use the existing www.walmart.com site setup; that it fits well with the 5-mile proximity to every Wal-Mart customer from a cost control point of view, and starting it with groceries makes it a regular purchasing activity with regular customers to build a steady pattern of purchasing over time that could expand from groceries to other items much like what they would otherwise buy from Amazon.com.
3. Create a "Wal-Mart to Go" Service, Partnering with FedEx or UPS. Here Wal-Mart would partner with one or both of these well-known delivery services to have items bought online from walmart.com delivered in metro areas to the purchasers. The idea here is to essentially match what Amazon.com now does with the same services and have packages at key Wal-Mart distribution centers close to major urban areas routed into this delivery system much like Amazon.com now does. Wal-Mart executives advocating this approach now have five experimental sites in major U.S. cities experimenting with this idea.
4. Crowdsourcing. Have regular Wal-Mart customers offer delivery services to fellow customers. Wal-Mart executives, starting with U.S. CEO Joel Anderson, were considering an idea that would have Wal-Mart jump into the middle of the global "crowdsourcing" or "sharing economy" phenomenon by letting its customers that want to earn a little extra income offer to deliver purchases to other customers from stores the deliverer frequently goes to anyway. So, under this idea, you regularly come to Wal-Mart store XXX to make item or grocery purchases; then you could register as a deliverer to customers in the area where you reside. Then, you pick up your purchase plus a set of packages for other customers in your home destination area. You deliver their packages to them directly and receive cash or store credit from Wal-Mart for doing so. Wal-Mart has millions of customers visiting every store each week. Some of these shoppers could tell Wal-Mart where they live and sign up to drop off packages for online customers who live on their route back home, according to Mr. Anderson. Wal-Mart would offer a credit or something similar, which would, in effect, cover their cost of coming to Wal-Mart to shop. Anderson sees this as just tapping into a major trend unfolding in the "sharing economy" where ventures like Zipments, TaskRabbit, Fiverr, and Airbnb are just a few that let individuals rent out their time, their car, their house or expertise, looking for a little extra income while using the time, car, or home they already own to do so.

5 Wal-Mart CEO Joel Anderson posited, regardless of the option, that all have a core advantage. "It is really efficient to use our stores. We've been picking and putting items in boxes for years." Continuing, "Ship to or from the store is no different. We are just picking items off the shelves and putting them in a box."

6 So, Wal-Mart executives look to you for advice. They realize you are a part of the generation more comfortable with what Amazon.com offers, with aspects of some of these options, and yet you know Wal-Mart. What would you advise them to do in order to meaningfully make a dent in the online sales Amazon.com "takes away" from Wal-Mart? Would you do all of these options, or just some of them? If more than one, which would you prioritize as most important? What potential revenue possibility would you expect within three years from the ones you think best? What pros and cons would you see with each option?